FINANCIAL TIMES

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WORLD NEWS

Clinton angers Taiwanese with remarks on island's status

President Clinton yesterday made it clear Washington does not support UN membership for Taiwan, considered by China to be part of its territory. His remarks, during his nine-day tour of China, were sharply criticised in Taiwan. Page 20

Kosovo fighting intensifies
Fighting intensified in Serbia's southern province of Kosovo as government forces tried to dislodge ethnic Albanian separatists from villages around a strategic coal mine. Page 2

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US lawyers filed a lawsuit against the Swiss National Bank, Switzerland's central bank, alleging it handled gold and other assets stolen by the Nazis during the war. Page 8

Retailers gear up for euro
Hotels, petrol stations and shops across the European Union will display prices and accept payments in euros as well as national currencies from January. Page 2

Portugal rethinks referendum
Portugal may decide to postpone referendums on European integration and devolution after more than two-thirds of potential voters chose not to take part in a vote on abortion. Page 2

Hungarians attack Slovak ban
Thousands of ethnic Hungarian pupils in Slovakia handed back their end of year reports to protest against government moves to restrict the use of their mother tongue at school.

UN set to censure Israel
The UN Security Council was expected to criticise sharply Israel's plans to extend the boundaries of Jerusalem. Page 7

Moscow talks on Caspian Sea
Kazakhstan's President Nursultan Nazarbayev will travel to Moscow next week for talks that may result in a deal to carve up the energy-rich Caspian Sea.

France ponders same-sex marriage
The French National Assembly is to debate legislation backed by the government to legalise homosexual marriages.

Romanian flood toll rises
The death toll in weeks of flooding in Romania has risen to 31 and damage to crops, homes and roads is nearly $150m.

Egyptian security blamed for Luxor
Egypt's security forces have been forced to accept blame for the slaughter of 58 foreign tourists and four Egyptians by Islamist militants at a popular tourist site in Luxor last November. Page 7

Trimble to head Ulster assembly
David Trimble, leader of the Ulster Unionist party, is expected to be elected first minister of Northern Ireland's regional government when the newly elected assembly meets for the first time today. Page 12

Berbers protest in Algeria
Several thousand ethnic Berbers marched against Algeria's Arabic-only law, amid claims that Moslem militants were responsible for the murder of a prominent Berber singer.

Tehran mayor rejects all charges
Tehran's moderate mayor denied all wrongdoing at the latest session of his corruption trial, focus of a conflict between conservatives and moderates in Iran. Iran opens doors, Page 6

BUSINESS NEWS

Veba falls 8% after profits warning renews fears over silicon wafer arm

Veba shares tumbled more than 8 per cent to DM118.9 ($66) after Ulrich Hartmann, chairman of the Düsseldorf-based industrial conglomerate, admitted it would face difficulties reaching profit targets this year. His comments rekindled worries about Veba's MEMC silicon wafers operations, which have been hit by the Asian economic crisis. Page 21; Lex, Page 20

Prada, the Italian fashion group which recently acquired 9.5 per cent of rival Gucci, is understood to be in discussions with a number of banks to raise at least $100m of junk bond finance. Page 26

Hilton Hotels is to split into separate hotel and casino companies, with the casino side taking over the Mississippi gambling operations of Grand Casinos for about $650m. The split is intended to benefit Hilton's shareholders by freeing the thriving hotel business from the lacklustre casino arm. Page 21; Lex, Page 20

Saga Petroleum's deputy chairman Leif Frode Onarheim is resigning over disagreements about plans to invest in oil and gas projects in Iran. Investing in Iran; Page 6

Pekao SA, one of Poland's largest banks, saw shares rise 22 per cent from the initial public offering price when they began trading in Warsaw, valuing it at $2.1bn. Page 24

NCM, Dutch export credit insurer, is targeting expansion in the US, Germany and Spain – drawing on the strength of Swiss Reinsurance, which has gained a majority 85.6 per cent stake. Page 26

Compaq Computer will take a $4.7bn charge against its 1998 results in connection with its acquisition of DEC, said chief executive Eckhard Pfeiffer. Page 26

Ericsson, the Swedish telecoms group, will next year launch a new "world phone" allowing subscribers to roam between Europe, North America and beyond. Page 26

Waste Management, the largest waste disposal group in the US, is offering to buy out minority shareholders in its UK-based international subsidiary at a near 40 per cent premium. Page 29

Frontline, Bermuda-based tanker operator, has abandoned talks aimed at ending its long-running ownership battle with ICB Shipping of Sweden. Page 26

UBS, the bank formed last week by the merger of Swiss Bank Corporation and Union Bank of Switzerland, is to hold talks with Sumitomo Trust about the UBS alliance with the ailing Long-Term Credit Bank of Japan. Page 21

SCA, Swedish forest products group, is buying the Svetogorsk tissue mill near St Petersburg for SKr200m ($25m) from Swedish group Tetra Laval. Page 27

Sunbeam, US household appliances maker, warned that it might restate its recent earnings numbers, adding to the uncertainty that has hung over the company since its firing of abrasive chairman Al Dunlap. Page 21

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 43

Fed warns banks in US to tighten loan controls

Report claims standards are slipping and risks rising in lending competition

By Gerard Baker in Washington

US banks were warned yesterday by the Federal Reserve to tighten controls on lending, following a study by the central bank that showed significant slippage in the standards applied to loans in the last two years.

In an unusual move, the Fed gave notice to all domestic and foreign banks it supervises that it expected bank examiners to step up their scrutiny of financial institutions and encourage more prudent lending practices.

The Fed said it had identified "noteworthy and measurable" easing in bank lending terms, driven by competition for borrowers in the vibrant economic climate of the last two years.

"This is a critical time for banks to maintain their lending discipline, and indeed to continue to enhance their controls and practices where they can," the central bank said in a report signed by Richard Spillenkothen, head of banking supervision.

Although the Fed's research showed no serious decline in the quality of loan books at the institutions it examined, the report said it had discovered a generalised easing in lending terms and standards and suggested banks could start to experience problems if economic conditions turned sour.

"If carried too far, such easing can undermine a bank's financial health, especially if the economy weakens, or the extraordinary recent performance of business profits and cash flow does not persist," it said.

Senior Fed officials have been anxious for some time about the growing anecdotal evidence that banks, in their intense competition for business, have been dropping their guard against imprudent lending and taking on much greater risk.

Although the financial system is in far better shape than it was in the late 1980s when high-risk lending, especially to the property sector, exploded in a period of rapid growth, officials are now sufficiently concerned to have issued a formal warning.

While they acknowledge that the US property prices still show no obvious signs of widespread overheating, they are keen to demonstrate an awareness of the risks of complacency.

Sensitivity to the risks has been heightened by the Asian financial crisis. US officials have made much of the superiority of their own financial supervision in the wake of the crisis and are especially eager to maintain the fundamental soundness of the US banking sector.

The Fed's analysis uncovered three main sets of problems at US banks: a widespread lack of proper analysis by lenders of the likely future financial performance of their customers; insufficient attention to the pricing of loans to take account of the greater degree of risk in some lending; and the rapid growth in unsecured loans in the last two years to property investment trusts.

The report contained some stinging rebukes for practices it said were common. "After several years of favourable economic conditions, banks should guard against complacency and, in particular, the temptation to base expectations of a borrower's future financial performance almost exclusively on that borrower's recent performance," the Fed said.

The report was issued as the Fed's open market committee began a two-day meeting on interest rate policy. In spite of concerns among some members that inflationary pressures are mounting, the Fed is expected to leave rates unchanged.

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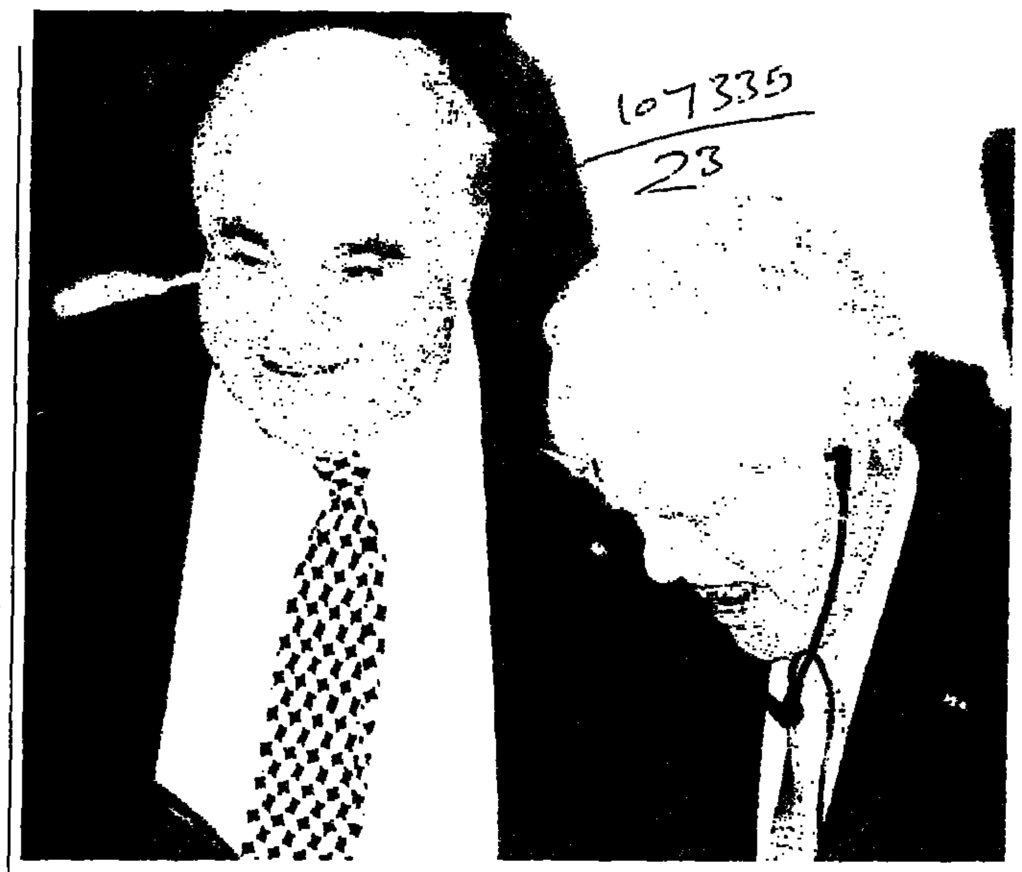

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European Central Bank president Wim Duisenberg and German chancellor Helmut Kohl (left) in Frankfurt yesterday for the birth of the ECB. European leaders called for flexibility of labour and capital to make economic and monetary union work. Reuters

Domestic reform key to Emu success, says Blair

By Wolfgang Münchau in Frankfurt

European political leaders and central bankers yesterday called for more flexibility in labour and capital markets as a critical condition for making economic and monetary union work.

The call came at the ceremonial launch of the European Central Bank in Frankfurt, attended by seven out of 15 European Union prime ministers and most of its finance ministers and top central bankers.

Tony Blair, the UK prime minister, which today hands the six-month EU presidency to Austria, warned that, if European governments did not embark on domestic reform programmes, they would put at risk the cohesion of the single currency zone. "The successful completion of Emu will depend on effective adjustment mechanisms in individual countries," he said.

Chancellor Helmut Kohl of Germany, whose personal commitment to the single currency has helped drive the process, said Emu was the catalyst for greater political union in Europe. But he also warned it could not solve Europe's economic problems.

The single currency, the euro, will be launched on January 1 1999 for 11 countries, although coins and notes will not start circulating until 2002.

The launch party at Frankfurt's Alte Oper house included performances from a Dutch male-voice choir and an Irish dance group. The ceremony was supposed to have taken place in Brussels on May 1 when EU heads of government launched Emu, but that gathering ended with an embarrassing quarrel over the presidency of the ECB.

Noteworthy absences yesterday included President Jacques Chirac of France, who is in southern Africa, and Lionel Jospin, French prime minister, seen by some as a sign that France still has difficulty in coming to terms with the ECB and especially with Wim Duisenberg, its president.

Mr Duisenberg promised that the bank would preside over a stable currency but warned it could not be held responsible for economic problems generated on the national level. He said: "Monetary policy is neither the cause of, nor the solution to, the still unacceptably high level of unemployment in Europe. Solving that problem mainly requires structural policies to make markets operate more flexibly."

Theo Waigel, the German finance minister, called on the Bundesbank, as the largest shareholder in the ECB, to exert an "appropriately strong" influence on its monetary policy.

Under the rules of Emu, the national central banks' shareholdings in the ECB do not affect votes on monetary policy, which are on a one member, one vote basis. Only a few issues, such as changes in the ECB's capital, are settled by weighted votes.

Otmar Issing, one of the six members of the ECB directorate, warned that the bank would not be able to perform miracles and said Emu would require more co-operation than was currently accepted.

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US warns Baghdad after missile site targets Allied jets

By Mark Suzman in Washington

The US yesterday warned Iraq not to jeopardize allied forces patrolling the country's no-fly zone after an Iraqi missile site targeted a group of Allied jets with its radar and a US warplane fired a missile at the installation in response.

The incident further raises tension in the Gulf, following an accusation last week by United Nations weapons inspectors that Iraq had used nerve gas in warheads before the 1991 Gulf War and was still concealing evidence of weapons of mass destruction.

Allied forces came close to launching military strikes against Iraq earlier this year over UN inspections of suspected weapons sites in Iraq.

Oil prices rose briefly on news of yesterday's incident and the US dollar strengthened before settling back to previous levels.

Iraq denied having targeted the aircraft with its radar, and said the firing of the missile was an "unjustified, aggressive act". It claimed the missile had missed the target.

William Cohen, US defence secretary, said the missile was intended as a warning. "If our aircraft or those of our allies are threatened, it will be met with a very big response," he said.

The Pentagon said the incident took place after a routine patrol by British Tornado jets over southern Iraq received cockpit indications that it was being targeted by radar from a missile site near the city of Basra.

In response, a US F-16 jet accompanying the Tornadoes fired at the site. All the aircraft then returned to base without further problems.

The Pentagon said the incident had not disrupted overall operations in the region. The British ministry of defence confirmed that a missile had been fired and that all jets had returned safely.

The White House said President Bill Clinton, who is visiting China, had been informed about the incident.

The no-fly zone, in place since 1992, extends to the 33rd parallel and was originally intended to ensure that Iraq could not carry out air attacks against rebels in the area. A similar zone is in place in the northern part of Iraq to protect the country's Kurdish minority. The Turkish parliament yesterday agreed to allow the US-led airforce that patrols northern Iraq to continue using a base in southern Turkey for another six months.

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WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8949.53	(-47.83)
NASDAQ Composite	1882.26	(-8.62)
Europe and Far East		
CAC40	4203.45	(-44.79)
DAX	5897.44	(-17.89)
FTSE 100	5832.5	(-52.0)
Nikkei	15,830.27	(+484.54)
US Lunchtime RATES		
Federal Funds	6.0%	
3-mth Treas Bills: Yld	5.145%	
Long Bond	100%	
Yield	5.659%	
OTHER RATES		
UK: 3-mo Interbank	7½%	(same)
UK: 10 yr Gilt	110.0	(110.03)
France: 10 yr OAT	105.12	(105.11)
Germany: 10 yr Bond	108.64	(108.63)
Japan: 10 yr JGB	111.06	(111.02)
NORTH SEA OIL (Argus)		
Brent Dated	$11.92	(13.23)

GOLD		
New York: Comex		
(Jul)	$297.0	(293.8)
London:		
	$297.65	(294.05)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.670	
DM	1.80525	
FFr	6.0495	
SFr	1.5157	
Y	139.025	
London:		
£	1.6695	(1.6653)
DM	1.8050	(1.8133)
FFr	6.046	(6.078)
SFr	1.5168	(1.5259)
Y	138.785	(141.6)
Tokyo Close		Y 139.85
Sterling		
DM	3.0117	(3.0196)

Bahrain	Din1.300	Belgium	BFr60	Cyprus	C£1.35
Denmark	DKr21.00	Estonia	[illegible]	Finland	[illegible]
France	FFr12.50	Gibraltar	[illegible]	Greece	Dr450
Hungary	Ft360	Iceland	[illegible]	Italy	[illegible]
Jordan	JD1.75	Kuwait	Fils750	Latvia	[illegible]
Lithuania	[illegible]	Luxembourg	LFr60	Morocco	[illegible]
Netherlands	Fl5.00	Nigeria	[illegible]	Norway	[illegible]
Oman	OR1.25	Poland	[illegible]	Portugal(Mainland)	Esc300
Qatar	[illegible]	S.Arabia	[illegible]	S.Africa	[illegible]
Spain	Pta275	Sweden	SKr22.00	Syria	[illegible]
Switzerland	[illegible]	Tunisia	Din2.000	UAE	Dh13.00

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EU agrees deal on car pollution curbs

By Michael Smith in Brussels

European Union car manufacturers and the petroleum industry face a clean-up bill of more than Ecu90bn ($100bn) after an agreement by EU member-states and the European Parliament requiring them to cut pollution.

However, the costs will be far less than if the parliament had succeeded in pushing through the much tighter controls it wanted on vehicle and fuel emissions.

Under a compromise negotiated on Monday night, representatives of the 15 nations agreed to the parliament's request to convert indicative targets for sulphur content in fuel in 2005 to mandatory standards.

But parliamentary representatives agreed to back down on many of their demands, and the mandatory standards will be set at the same levels as would have been the indicative targets. For 2005, the level is 50 parts per million.

The so-called "auto-oil" package is aimed at cutting emissions of gases such as carbon monoxide, nitrogen oxides, benzene and ozone by around 70 per cent on average.

According to the European Commission, the programme will cost the motor industry at least Ecu60m over the 15 years of its implementation. The petroleum industry estimates that it will have to pay at least Ecu32bn to implement the programme.

It will lead to a two-step tightening of emission limits for passenger cars and light vans, the first in 2000, the second in 2005. Leaded fuels will be phased out by 2000 in most cases.

In addition the package will require the fitting of "on-board diagnostic" (OBD) systems to new petrol cars from 2000 so that emissions can be checked. Diesel vehicles will have to have OBD systems from 2005.

From 2000 new models will also have to undergo durability tests after five years or 80,000 kilometres. At parliament's insistence the 80,000 will rise to 100,000 in 2005.

The Commission, which produced the first draft of the proposals, welcomed the political agreement. "We should have cleaner air in our cities and fewer ozone episodes in the summer," said Ritt Bjerregaard, environment commissioner.

However, there was disappointment in the Commission about the conversion of the indicative targets for sulphur to mandatory standards. Officials had wanted to await the outcome of a second auto-oil programme.

Europia, representing the petroleum industry, said it was pleased the conciliation process between parliament and the countries had been brought to a prompt conclusion, but said earlier proposals by the Commission would have cost its members a third of the bill they now faced. "Those original proposals would have enabled the clean air objectives to be achieved in the most efficient way."

Monday's deal must be confirmed by the 15 EU member-states and by the parliament, but their assent is thought likely.

Decision day for Russian reforms

By John Thornhill in Moscow

Sergei Kiriyenko, Russia's prime minister, will urge parliament today to adopt an emergency package of laws to strengthen the public finances.

The Duma, or lower house, is being pressed to pass about 20 draft laws before its summer recess on July 16 to underpin the government's commitments to pursue budgetary reforms.

The International Monetary Fund, which is negotiating an additional support loan for Russia, is asking the government to take steps to raise additional taxes and cut spending. Yesterday, it paid out the latest $670m tranche of its existing $9.2bn support loan, which will be used to retire high-yielding domestic debt.

Mr Kiriyenko is certain to face tough criticism from Communist deputies. Sergei Baburin, the Communist vice-speaker of the Duma, said the austerity programme had been "dictated by western ideologues".

More moderate forces seem certain to support the government. The liberal Yabloko faction has said it will support the anti-crisis package. But it wants "serious changes" to proposed new taxes affecting small businesses, the media, and the housing sector.

Sergei Ivanenko, Yabloko's deputy head, blamed the current crisis on President Boris Yeltsin and Victor Chernomyrdin, the former prime minister. But he described the current government as being "politically feeble and professionally incompetent".

Russia's financial markets remain extremely nervous, but some western investment banks are now recommending that their clients move back into hard-currency debt instruments and domestic government bonds.

Eric Fine, east European debt strategist at Morgan Stanley Dean Witter, the US investment bank, said Russian assets were looking attractive relative to those in other emerging markets, such as Nigeria and Brazil. "Russia is cheap. We think it has been sold off mainly for technical reasons, and there is a high probability that an IMF agreement will be announced by mid-July."

The Russian government is aiming to secure a financial support package of $10bn to $15bn from the IMF, World Bank, western governments, and commercial lenders by the end of the month. The government has already been sounding out western investment banks about bridge financing before these funds are forthcoming.

Prodi to confront Communists to head off government's 'quasi-crisis'

A series of political setbacks has raised questions about the Italian coalition, writes **James Blitz**

Prime minister Prodi (left) plans "make or break" talks with Bertinotti — Reuters and AP

Barely two months have passed since Romano Prodi, Italy's prime minister, completed the historic achievement of ensuring his country's qualification for the single European currency.

Yet far from reaping the political dividend many expected, Mr Prodi now finds himself trying to revive the spirits of his two-year-old coalition government.

Mr Prodi's administration has entered what the pundits are calling a "quasi-crisis".

In the language of Italian politics, a "crisis" is the period when a government formally loses its parliamentary majority and looks pretty certain to get turned out of office. A "quasi" version is more subtle. After a series of political setbacks in recent weeks, Mr Prodi is trying to establish whether he still enjoys a majority in parliament.

The chances are that he does and that his administration will stay on – but on terms that make it impossible to carry out the structural economic reforms that Italy needs.

Not for the first time, the sharpest thorns in Mr Prodi's side are the Reconstructed Communists, the far-left party of 34 deputies on whom his administration has long relied for its slim parliamentary majority.

Last week the Communists, led by Fausto Bertinotti, voted against a government bill to expand the North Atlantic Treaty Organisation to include the Czech Republic, Hungary and Poland.

The bill was passed with the help of the 31 deputies in a new centre-right grouping led by a former president, Francesco Cossiga. But Mr Cossiga's involvement has merely added to the uncertainty, triggering unease within Mr Prodi's centre-left coalition about its political identity.

The prime minister is therefore initiating "make or break" talks with Mr Bertinotti to "verify" the majority and eliminate remaining areas of disagreement.

"We are going to have a tough, serious, strong confrontation that gets a government that lasts. Otherwise we will have nothing," said the prime minister on Monday, in a clear signal that he will quit if a pact cannot be drawn up.

The negotiations concentrate on several issues. The Communists will need to make clear what their view would be if Italy plays any part in Nato action in Kosovo; and how they will vote in parliament on a bill to renew Italy's Nato bases.

The employment picture will also be crucial. Mr Bertinotti is still calling for a job-creating agency for Italy's troubled south, an idea that is anathema to an administration whose central policy is debt reduction.

There is a potentially explosive difference, too, on the issue of education, with the Communists opposing government plans for state subsidy of Catholic schools.

Mr Prodi sounds tough, even angry, as he prepares for these talks. Yet for several reasons his bargaining position is less strong than he would like.

First, although he could in principle weaken the Communists if he threatened to call an early general election, since their opinion poll standing is low at the moment, such a threat carries little weight.

Recent local elections have left an uncertain picture of the voters' mood, suggesting the right could triumph at the polls. An election now, when the lira still floats freely, risks repercussions in financial markets in the final months before Italy joins the euro-zone in January.

Secondly, the Communists know Mr Prodi would find it hard to turn again to Mr Cossiga, an ex-Christian Democrat, for support in critical votes.

The Democrats of the Left, the core of Mr Prodi's coalition, would object to another tactical alliance with Mr Cossiga who, they fear, wants to recreate a grand coalition of the political centre at the expense of the centre-left group in power.

Thirdly, the idea of a new technocratic coalition of left and right – led by Carlo Azeglio Ciampi, the Treasury minister – is being mooted, one that would exclude RC from the corridors of power once and for all. But this would give a power-broking role to Silvio Berlusconi, the Forza Italia leader, and is anathema to the centre-left.

The one concrete result of this unstable period could be a government reshuffle, one which marginally strengthens the position in the cabinet of the Democrats of the Left, led by Massimo D'Alema.

Mr D'Alema fears his party is being sidelined in the game of power-broking with Mr Cossiga and Mr Bertinotti. A reshuffle, centred perhaps on the justice ministry, would appease those fears.

But Mr Prodi's problems make it unlikely he can contain the threat from Communists once and for all. Given the latest economic figures, that is a worry for the coalition.

Italy's economy is growing more slowly than in France and Germany. The latest unemployment figures showed a move upwards. The Bank of Italy is spreading fears about lax fiscal control.

An uncertain coalition and an uneasy economic outlook add up to a long hot summer and an even hotter autumn.

Villages suffer in Kosovo battle

By Guy Dinmore in Belgrade and David Buchan in London

Fighting intensified yesterday in Serbia's southern province of Kosovo as government forces tried to dislodge ethnic Albanian separatists from villages around a coal mine near the regional capital, Pristina.

Official Serbian media said security forces had regained control of the Belacevac mine and two nearby villages, but foreign reporters said the three-day offensive was continuing. Heavy explosions and gunfire could be heard from the area, which was sealed off.

Witnesses said the villages of Hade and Belacevac had been partly destroyed in a combined attack by Serbian police, the federal Yugoslav army and armed civilians. Several thousand Albanians have fled their homes, most heading to Pristina.

Serbian officials said 10 "terrorists" had been killed. They accused the pro-independence Kosovo Liberation Army (KLA) of using women and children as "human shields".

KLA fighters seized Belacevac a week ago. The open-cast mine, about 10km north-west of Pristina, is one of two mines supplying coal to twin power stations.

The fighting follows a three-week lull in hostilities that western diplomats attributed to warnings by Nato of military intervention should Slobodan Milosevic, the Yugoslav president, pursue his offensive against ethnic Albanian villages used by the KLA.

But diplomats say Mr Milosevic senses that this threat is receding as differences emerge between the US and its European allies and with Russia. Hubert Védrine, the French foreign minister, reiterated yesterday that action by Nato would need UN Security Council approval, a position rejected by Washington.

European diplomats are also critical of the US decision – apparently made without consultation – to open talks with the KLA, which senior US officials had previously condemned as a "terrorist organisation".

Diplomats fear that if US mediators fail to broker a ceasefire, Kosovo will witness another wave of refugees that could destabilise the region.

Kosovo Albanians are already reaching Italy via Albania, which is becoming divided between the government-controlled area around the capital, Tirana, and the north where opposition forces loyal to Sali Berisha, the former president, are allied to the KLA.

Amnesty International yesterday condemned both sides in the Kosovo conflict for human rights abuses and said these could amount to war crimes. It said the evidence so far was stronger against Serb security forces than against their ethnic Albanian opponents.

Retailers agree deal for euro price tags from next year

By Samer Iskandar in Brussels

Hotels, petrol stations and shops across the European Union will start displaying prices and accepting payments in euros as well as national currencies from January, as part of an agreement signed yesterday between industry associations and consumer groups.

The deal, the first on a EU-wide scale between consumer representatives and trade associations, is designed to "establish a climate of confidence during the changeover to the euro", according to the European Commission, which initiated the consultations last May.

However, the compromise falls short of earlier calls by consumer associations for the Commission to legislate on the issue. They fear that retailers may take advantage of consumers' unfamiliarity with the new currency to increase profits during the transition to the euro.

Trade bodies have lobbied against legislation, claiming the costs could harm competitiveness and threaten jobs.

EuroCommerce, an umbrella association for wholesalers and retailers in 24 European countries, has estimated that forced dual pricing of all products in euros and national currencies from 1999 to 2002 – when the new coins and notes are introduced – could cost companies up to 2 per cent of their total turnover.

"Competition is doing a more effective job [at making retailers consumer-friendly] than any law," said Henrik Kröner, secretary general of EuroCommerce. "Many shops will probably do much more than what is in the agreement."

As part of the agreement, the Commission will create a label for professionals who commit themselves to six principles: applying EU rules for conversion and rounding of prices: abstaining from charging higher prices to consumers paying in euros; providing practical information on the use of the euro; pricing receipts and products on display or subject to special offers in euros as well as the national currency; ensuring that staff are capable of providing information on the euro; and signalling whether they accept payments in euros.

An independent body will control compliance with the agreement. Traders who use the label but fail to respect the undertakings could face legal action.

The main shortcoming of the compromise is that professionals will be able to obtain the label even if they do not accept payments – by card or cheque – in euros before 2002. Industry representatives said the "voluntary nature" of the deal was necessary to secure professionals' approval.

"Credit and debit card transactions are expensive for retailers," said one negotiator. "We could not impose these extra costs on them."

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Portugal may drop referendums

By Peter Wise in Lisbon

Portuguese legislators may decide to postpone two referendums planned for this year after more than two-thirds of potential voters chose not to participate last Sunday in the country's first referendum, which was on liberalising the law on abortion.

Politicians and constitutional experts warned that a similar level of abstention in the two planned ballots, on European integration and regional devolution, could permanently discredit the use of referendums.

Jorge Sampaio, Portugal's Socialist president, said on Monday the high abstention rate was cause for serious reflection. But he continued to defend referendums as valuable tools for improving the democratic system.

Only 32 per cent of eligible citizens voted on the abortion issue on Sunday, well below the 50 per cent required to give the referendum legal force. The vote gave a marginal victory of less than 1 per cent to the No vote against a bill allowing women to terminate pregnancies in the first 10 weeks.

Although the government is not legally bound by the failed referendum, the deputies from the governing Socialist party who put forward the bill said they would respect the No vote and abandon the legislation, at least until a new parliament is elected.

The poor turnout, the lowest since democracy was restored in Portugal in 1974, gave weight to the argument of politicians who had warned that using a referendum to ratify a bill already approved by parliament set a dangerous precedent of undermining the powers of elected legislators.

The vote started a national discussion on referendums as parliament convened to debate the wording of questions to be asked in the next two votes, initially planned for the autumn.

In one, voters will be asked if they agree with plans for further integration of the European Union. In the other, a government proposal to create elected regional assemblies will be put to the test.

But the government is now under pressure to delay the ballots, possibly until after a general election scheduled for late in 1999, to allow more time for debate, both on the issues themselves and on the role of referendums.

NEWS DIGEST

FRENCH ECONOMY

Unemployment continues gradual decline in May

The number of French jobless continued its gradual decline in May, dropping by 14,900, the equivalent to a 0.5 per cent month-on-month fall. The total number without work in May, according to Insee, the official statistics institute, was 2.97m, or 11.9 per cent of the active population. The main beneficiaries of the improved jobs picture were males aged under 25.

In May, this category saw the number seeking jobs fall by 4.6 per cent. Over the past year, the decline in the number of male jobless was 15 per cent.

First time job seekers benefited from the strong economic recovery as well as the Socialist-led government's measures targeting youth unemployment.

In contrast, the number of long-term unemployed was up 0.2 per cent on the month and 3.6 per cent over the past 12 months. In May, the long-term jobless accounted for almost 40 per cent of those seeking jobs. **Robert Graham, Paris**

SPANISH BASQUE REGION

Long-standing coalition falls

A long-standing coalition government in Spain's Basque region fell apart yesterday when the Socialist party said it was quitting, four months ahead of regional elections. The party's regional leadership decided in a majority vote to leave the government headed by the Basque Nationalist party (PNV), ending a pact which had lasted more than 12 years.

The split happened after the PNV and the smaller coalition party Eusko Alkartasuna voted together with Herri Batasuna, political wing of the outlawed separatist organisation Eta, to overturn a proposal which would have obliged members of the regional parliament to acknowledge formally the Spanish constitution. The PNV abstained on the constitution when it was introduced 20 years ago.

Nicolás Redondo, Socialist leader in the region, said he regretted having to take the step and still believed in the need for collaboration between nationalist and non-nationalist Basque parties.

Earlier, Xabier Arzalluz, PNV leader, recognised that his party's recent bilateral contacts with Herri Batasuna had involved a high political cost without producing progress. The row intensified after last Thursday's killing, attributed to Eta, of a local councillor representing Spain's ruling Popular party, the sixth such murder in the past year. **David White, Madrid**

ROMANIAN ECONOMY

GDP falls 9.4% in first quarter

Romania's gross domestic product plunged by 9.4 per cent in real terms in the first quarter of the year from the equivalent period of 1997, a National Statistics Board (CNS) report said yesterday. It said estimated GDP amounted to 62,120m lei ($7.2bn) from January to March. The fall was triggered by declines in gross value added in all economic sectors, with the steepest drop – 37.3 per cent – in livestock production.

The CNS report said industry, which contributes 38 per cent of GDP, contracted 7.4 per cent from the first quarter of last year, while the services sector saw an 8.5 per cent fall. Services account for 47 per cent of GDP. Final consumption fell 4.1 per cent in the first quarter from a year earlier, with household consumption falling three per cent and public spending sinking 11.1 per cent.

Daniel Daianu, the finance minister, recently revised his gross domestic product forecast, predicting the economy would shrink by around 2 per cent this year against a previous estimate of zero growth. The economy contracted 6.6 per cent in 1997. **Reuters, Bucharest**

CROATIAN DEBT

S&P cuts rating

Standard & Poor's rating agency yesterday cut Croatia's long-term local currency debt rating to BBB plus from A minus but held Croatia's other ratings steady. S&P said the cut reflected Croatia's "increasingly constrained financial flexibility" because so much of domestic savings were still held in hard currencies and domestic debt markets remained under-developed.

As a result, there is a narrow differentiation between local and foreign currency ratings, S&P said. S&P affirmed Croatia's long-term foreign currency debt rating at BBB minus. Short-term ratings for foreign and local currency debt were affirmed at A3 and A2 respectively.

The government's commitment to disciplined fiscal and monetary policies, moderate budget deficits and debt burden, and a manageable external debt burden all supported Croatia's ratings, S&P said.

The ratings were constrained by "a political situation still marked by substantial uncertainties", increased balance of payments vulnerability and a vulnerable banking system, it said. **Reuters, London**

POLISH RESTRUCTURING

Coal, steel jobs to go

The Polish government yesterday approved restructuring plans for the coal and steel industries aimed at halving within five years the 330,000 workforce employed in total in the two sectors. Janusz Steinhoff, the economics minister, submitted the steel plan, the subject of negotiations with European Commission officials, for final approval by the European Union. "I have grounds to believe that this plan will be acceptable to the EU," he said.

The steel plan, which contains a commitment to privatise the industry by the end of 2001, will be presented next Monday to representatives of EU member states.

Mr Steinhoff said Poland would today lower tariffs on imports of steel from the EU from 6 per cent to 4 per cent and would reduce the rate to 3 per cent next year. Tariffs will be lifted altogether in 2000. **Christopher Bobinski, Warsaw**

FT/CEREC HERITAGE AWARD

Italian business group wins

The 1998 FT/CEREC Award for Outstanding Sponsorship of Heritage in Europe has been won by the Italian business grouping CONSULTA from Turin. CONSULTA is made up of 25 companies which have pooled resources, ideas and management skills to rebuild and restore the historic city centre of Turin, including many of Europe's architectural jewels.

The project won the award because, in the words of the judges, CONSULTA has built a "genuine bridge across individual enthusiasms, business concerns and state responsibilities.

"The project includes both practical business benefits but also a true sense of collaboration and partnership between business, where companies have decided to work together rather than in competition, to create social value."

The award, which is run in collaboration with the European Heritage Group (EHG), was presented to Giuseppe Lignana, chairman of CONSULTA, by Colin Tweedy, the chairman of CEREC, at a ceremony at the Globe Theatre, London on June 29.

PRIVATISATION GOVERNMENT HOPES FOR GREATER EFFICIENCY IN FINANCIAL SECTOR

Sale spurs Greek bank drive

By Kerin Hope in Athens

The sale of Cretabank, a troubled state bank, to the Latsis oil and shipping group for the unexpectedly high price of Dr93bn ($304m) will give a boost to the Socialist government's privatisation drive.

Two more state banks, Ionian Bank and Bank of Central Greece, are due to be privatised this summer as part of measures to improve the banking sector's efficiency.

EFG Eurobank, part of an international chain of private banks controlled by the London-based Latsis group, is one of several small Greek banks trying to increase market share ahead of the launch of the euro.

EFG Eurobank doubled its capital base to Dr120bn earlier this year to prepare for making acquisitions. It made its bid for Cretabank two weeks after the purchase from Korea's Hanwha group of a controlling stake in Bank of Athens.

Cretabank failed to recover from a $200m embezzlement scandal revealed in 1988 which helped bring down a Socialist government headed by the late Andreas Papandreou.

Its owner, George Koskotas, was accused of transferring embezzled funds to the Socialist party.

Although Cretabank was taken under central bank administration and given a Dr41bn capital injection as part of a restructuring effort, it suffers from poor management and has a large portfolio of bad loans.

Three previous attempts to privatise the bank failed because bids were considered too low. In March the government rejected a Dr30bn offer from Bank of Piraeus, a fast growing bank which was the only bidder.

One analyst said: "If Latsis is ready to pay three times the accepted valuation of Cretabank and then write off 25 per cent of the loan book, the other two banks are likely to sell for a big premium."

At Monday's auction, Bank of Piraeus offered Dr52.4bn for 98 per cent of Cretabank.

Ergobank, Greece's second biggest private bank, bid Dr48.1bn.

Party's rank and file still unconvinced over sell-offs

By Kerin Hope in Athens

Yannos Papantoniou, Greece's economy minister, finds it easier to convince foreign investors that structural reform is working than he does to persuade fellow members of the governing Socialist party.

The markets have welcomed Greece's bid to join the European single currency in 2001. Prices on the Athens stock exchange soared to record levels after the drachma's entry in March to Europe's exchange rate mechanism, the waiting room for membership of the euro, and are still riding high.

Yet opposition persists to Mr Papantoniou's policies, which include faster privatisation of state enterprises, liberalisation of the labour market and an overhaul of the pension system.

Mr Papantoniou said in an interview with the Financial Times that structural reforms considered essential if Greece was to qualify for monetary union "still haven't been accepted. It's not so much the cabinet, who agree on the basic issues, as the rank and file of the party," he said.

"They still need to be convinced about privatisation of banks and state enterprises, that it will open the way to growth and new jobs."

The government is ploughing on with the restructuring of loss-making state enterprises and the privatisation of state-controlled banks in spite of strikes and violent protests by transport and bank unions, which are controlled by hardline members of the Socialist party.

Although Mr Papantoniou is supported by Costas Simitis, the prime minister, some prominent Socialists, including cabinet ministers holding economic portfolios, have criticised the programme at party meetings as being too harsh.

Senior party officials fear Mr Papantoniou's determination to push through the remaining structural reforms over the summer will damage the Socialists' chances at local elections to be held in October.

Mr Papantoniou acknowledged that the government's failure "to sell its policies to its supporters" restricted its room for manoeuvre. Despite foreign investors' keen appetite for Greek stocks and rising interest among Greek retail investors, the government would not consider selling more than 49 per cent of OTE, the telecoms company, or speeding the flotation of DEP, the power utility.

Papantoniou: wants faster sell-offs of state enterprises

Greece's revised convergence programme, presented last month to the European Commission, projects privatisation revenues equal to 0.9 per cent of gross domestic product in 1998 and 1999, mainly through flotations on the Athens bourse of minority stakes in state enterprises.

Mr Papantoniou said the target would be exceeded, partly as a result of private placements last month of government-held shares in OTE and National Bank of Greece, the biggest state bank, with institutional investors.

He said privatisation revenues would "reach 2 per cent of GDP this year and another 1 per cent next year", and help to keep the public debt on a downward track.

"But we don't have a mandate to take privatisation any further," he said. "It can't happen until after the next election [due in 2000]."

Nevertheless Greece is on track this year to satisfy almost all the requirements for participating in monetary union outlined in the European Union's Maastricht treaty, Mr Papantoniou said.

The budget deficit is projected to shrink to 2.4 per cent of GDP, while the public debt is forecast to decline, though only marginally, for a third successive year.

The drachma has appreciated against the Ecu, clawing back half the losses caused by the 12.1 per cent devaluation which accompanied ERM entry in March.

But it will be a struggle to reduce the inflation rate, which was stable in May at 5.3 per cent, to below 2.5 per cent by the end of 1999. Mr Papantoniou said: "We will use every weapon at our disposal, even reductions on indirect taxes if necessary, to reach the target by March 2000."

Yilmaz ponders his fragile grip a year after taking power in Turkey

John Barham on the prime minister who entered office with low expectations but has developed a taste for government

Mesut Yilmaz's hold on power looks as uncertain today as it did a year ago when he took over as Turkish prime minister from Necmettin Erbakan, the Islamist leader forced from office in June 1997 in a military-led "soft coup".

Few, including the taciturn Mr Yilmaz, expected his minority three-party coalition to survive for long. He said his main task would be to prepare Turkey for early elections.

However, he clearly developed a taste for power and soon decided to try struggling on until 2000, when general elections are due. Mr Yilmaz had previously served as prime minister for two brief periods in 1991 and 1996 after becoming head of the conservative Motherland party in 1991.

Some observers doubt that Mr Yilmaz is the leader of energy and vision Turkey needs to overcome daunting problems that include an inflation-ridden economy, a 14-year-old Kurdish uprising, a growing Islamist movement and a breakdown in relations with the European Union. Alan Makovsky, of the Washington Institute for Near East Policy, said: "He came into office with low expectations and he fulfilled them."

Mr Yilmaz's frail coalition, which comprises Motherland, one other conservative party and a centre-left party, has staggered from one cabinet crisis to the next.

The government is about 50 seats short of a majority in the 550-member parliament, making it one of the weakest in modern Turkish history.

It has survived three censure motions, mainly because deputies fear early elections.

The coalition's future looks even more unpredictable as a result of a deal Mr Yilmaz struck in June with an opposition centre-left party that holds the balance of power in parliament. Mr Yilmaz promised Deniz Baykal, leader of the People's Republican party (CHP), that he would hand over power in December to a caretaker administration and hold elections next April.

In exchange, Mr Baykal would help pass economic reform bills that have been blocked for several years by parliament. However, Mr Yilmaz complained that the CHP was not supporting the planned tax and social security reforms, adding: "It is not possible to take a decision for elections without these bills becoming law."

The deal with Mr Baykal also faces opposition inside Mr Yilmaz's Motherland party, while the Democratic Turkey party, the coalition's other conservative group, has threatened to pull out unless the government pushes through populist economic measures.

Mr Yilmaz deserves some credit for managing to govern amid such confusion. He has revived Turkey's lethargic privatisation programme, which will this year raise more money than in the preceding 13 years even if it achieves only half the forecast $9bn in sell-offs. Inflation is heading down and the economy is booming.

Mr Yilmaz has begun popular reforms to improve Turkey's dismal education standards and to stamp out growing Islamist influence in schools. He has made some progress against government corruption and human rights violations, though both remain serious problems. Selim Oktar, general manager of Strateji-MORI, a polling company, said: "This is Turkey's last chance to catch the train to [modern] society, but I think we have a chance."

However, many of these advances are attributable to the efforts of others. Turkey's competent corps of technocrats is running the economy.

Yilmaz: few expected his three-party coalition to survive for long

Private business long ago took over the state's role as the engine of growth. The government has ceded responsibility for large areas of domestic and foreign policy to the politically powerful military, which mounted three coups d'état between 1960 and 1980. It was the army that demanded education reforms and insisted on more action against radical Islam.

The army's growing involvement in civilian politics is one of the factors undermining relations between Turkey and the EU. Mr Yilmaz froze political contacts with the EU last December after it kept Turkey off a list of membership candidates while including Cyprus, which Turkey has partially occupied since its 1974 invasion.

In March, Mr Yilmaz accused Helmut Kohl, German chancellor, of pursuing a Nazi-style expansionist strategy of Lebensraum in eastern Europe and the government has kept up a barrage of belligerent rhetoric against Greece and Cyprus.

However, Turkey is probably resilient enough to continue muddling on for years, and most observers said radical reform was unlikely until the politicians fixed the political system. The proliferation of small parties makes it difficult to form strong governments.

Commentators believe the current parliament may be incapable of pushing through changes to the electoral law.

Pollsters said the next elections could be as inconclusive as the last ones in 1995, when the Welfare party of Mr Erbakan, later dissolved for anti-secularist activities, emerged the winner with only 21.4 per cent of the vote.

General Çevik Bir, the powerful deputy chief of staff, said that fundamentalism "is still the number one threat and problem".

Decades of inflation and economic instability have proved a fertile breeding ground for militant Islam.

But Gen Bir added that people should not be pessimistic about the durability of the secular state. "We established the republic, and we are the ones who will keep it alive."

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Now read the small print.

This is the first week in the life of Warburg Dillon Read, and our achievements to date make impressive reading. A division of one of the world's largest banks, UBS AG, we have already redrawn the map of banking. We solve client problems, every day and in every conceivable way. Many of those solutions appear on this page - others are still in development.

No wonder people say we are the outstanding success story in global investment banking. Read all about it.

A selection of key deals from the last six months

Allianz/Deutsche Bank
Joint Bookrunner • DEM 2 bn • Exchangeable Bonds Largest ever German convertible issue • Jan '98

Alpharma Inc
Financial Adviser • –US$ 200m • Acquisition Hoechst AG's European generic pharmaceutical business • May '98

Alpharma Inc
Sole Bookrunner • US$ 125m • Convertible Notes • Mar '98

Bell Atlantic/TCNZ
Sole Bookrunner • US$ 2.455 bn • The largest ever international equity-linked issue and named Deal of the Quarter by International Equity Review • Feb '98

Chelsea Village
Lead Manager • GBP 75m • Senior Securitised Notes Due 2007 • Dec '97

Coca-Cola Enterprises
Sole Manager • GBP 152.2m • The first ever Sterling denominated PATS issuance

Eagle-Picher Industries, Inc
Lead Manager • US$ 220m • Senior subordinated notes due 2008 • Feb '98

Eagle-Picher, Holdings, Inc
Lead Manager • US$ 141.9m • Cumulative Redeemable Exchangeable Preferred Stock • Feb '98

GE Capital Corp
Financial Adviser • US$ 105m • Acquisition of Renta Inmobiliaria SA • Jan '98

GEC plc
Joint Arranger and Bookrunner • EURO 6bn • Debut syndicated financing • Feb '98

Hagemeyer
Global Co-ordinator • US$ 1.8 bn • Disposal of shares for First Pacific. One of the largest ever private sector secondary offerings • Mar '98

Hellenic Republic
Joint Bookrunner • EURO 2bn • First ever Greek EURO issue • Mar '98

Homestake Mining Company
Financial Adviser • US$ 650m • Acquisition of Plutonic Resources Limited • Apr '98

IBM Credit Corp
Bookrunner • US$ 125m • Exchangeable Notes into Dow Jones Industrial Average • Jan '98

Kingdom of Sweden
Joint Bookrunner • EURO 2bn • First ever domestic sovereign EURO issue • Apr '98

Manhattan Card Co
Adviser & Dealer Manager • HK$ 2bn • Share buy-back. The largest tender of its type in the Hong Kong market • Mar '98

Ministry of Finance of Ukraine
Bookrunner • EURO 500m • First ever Eastern Europe sovereign EURO issue • Mar '98

Nabisco, Inc
Lead Manager • US$ 1bn • 3-tranche put/call transaction. The largest put/call issuance to date • Jan '98

Orange
GBP 771m • Landmark bought deal of shares in UK cellular telephone operator on behalf of British Aerospace • Mar '98

Reed Elsevier
Financial Adviser • GBP 860m • Sale of IPC Magazines Ltd. One of Europe's largest management buyout deals this year • Jan '98

Republic of Austria
Lead Manager • DEM 1bn • The first non Austrian Schilling denominated domestic bond • Mar '98

Republic of Italy
Joint Bookrunner • EURO 4bn • Largest ever domestic sovereign EURO issue • Feb '98

Reseau Ferre de France
Joint Bookrunner • EURO 1bn • 5.25% coupon due Apr 2010 • Mar '98

Roche Kapitalmarkt AG
Sole Bookrunner • CHF 1bn • Issue of 1.75% domestic bonds *'RODEO' Call-spread warrants due 2008* • Feb '98

SHV Makro
Financial Adviser • GBP 1.8bn • Sale of SHV Macro's European Cash & Carry activities to Metro • Dec' 97

Siemens Capital Corp
Joint Bookrunner • US$ 1bn • A rare benchmark 10-year Eurobond issue • Jan '98

Singapore Technologies Group
Financial Adviser • US$ 2bn • Amalgamation of four listed ST Group companies to form ST Engineering, one of the largest listed companies in Singapore • Dec '97

Somerfield
Financial Adviser • GBP 478m • Merger with Kwik Save forming one the largest supermarket groups in the UK • Feb '98

Stagecoach
Sole Provider • GBP 102m • Bridging Loan • Apr '98

Stagecoach
Joint Bookrunner • GBP 363m • First ever securitisation to pay for rolling stock • May '98

State of São Paulo
Financial Adviser • US$ 1.8 bn • Sale of controlling stake in Eletropaulo Metropolitana Eletricidade de São Paulo S.A. • Apr '98

Swiss Life
"GEMMS" Sole Bookrunner • US$ 2.03 bn • The largest ever European corporate equity-linked issue • Apr '98

TECO
Global Co-ordinator & Bookrunner • US$ 200 m • Credit Enhanced Convertible Bonds. The largest convertible bond this year in Taiwan • Feb '98

Takefuji Corp
Sole Bookrunner • Y88.2 bn • The largest international public offering of Japanese stock • Mar '98

Textron Financial
Lead Manager • US$ 200m • The largest floating-rate put/call issue to date • Feb '98

Textron Inc
Financial Adviser • US$ 293m • Recommended cash offer for Ransomes which was also extended to US shareholders • Jan '98

Thomson Travel
Global Co-ordinator • GBP 1.36bn • Global co-ordinator. The largest ever corporate IPO in the UK • May '98

World Bank
Joint Bookrunner • US$ 4bn • The largest ever World Bank issue • Mar '98

Warburg Dillon Read

FOREIGN INVESTMENT $5.7BN PROJECTS TO BE UNVEILED AT LONDON CONFERENCE

Tehran reopens doors to vast oil and gas resources

By Robert Corzine in London and Robin Allen in Tehran

"Foreigners" and "concessions" have been dirty words in the Iranian lexicon ever since the Qajar Shah tried to replenish his treasury in 1891 by selling a monopoly concession for production and sale of tobacco to British Imperial Tobacco.

It so enraged Sheikh Mirzahi Shirazi that he issued a *fatwa*, a binding religious decree, prohibiting the use of tobacco. That *fatwa*, the first example of Iranian clerical intervention in national politics, was so effective that the Shah was forced to revoke the concession.

The word "concession" has smacked of foreign oppression and control ever since. However, by the time William Knox D'Arcy was awarded the first oil concession in 1901 in a deal that led to the founding of the Anglo-Persian Oil Company – the forerunner of British Petroleum – the Persian state needed money so badly that the unpopular concession was implemented, with grim results that have haunted foreign companies' relations with Iran to this day.

Now the Iranian government once again finds itself in dire need of foreign cash, this time to revitalise its flagging oil and gas industry. But when Iranian officials unveil the list of $5.7bn (£3.4bn) worth of projects to be opened to foreigners at a conference beginning in London today, the word "concession" will be conspicuously absent.

Instead, there will be much debate on "buy-backs", a complicated arrangement which gives enough commercial incentives for foreigners to develop Iranian oil and gas fields while avoiding any suggestion that they "own" the oil or gas produced.

The word 'concession' will be absent from conference

Today's conference is the result of a recent sea-change in Iranian attitudes to foreign involvement in the strategic oil and gas sector, which has suffered heavily since the 1979 revolution.

The mullahs who led that revolution sought to prevent foreigners from gaining access to strategic sectors of the economy. They drafted the 1981 constitution which prohibited the granting of "... concessions to foreigners for the establishment of public companies, organisations or enterprises, in the commercial, agricultural, industrial, mining and services sectors".

The oil and gas sector was seen as the most politically sensitive, given the troubled history of relations between Iran and western oil companies, and the sheer size of the resource base; Iran has 9 per cent of the world's oil reserves and almost 16 per cent of its natural gas.

A combination of the ban on foreign involvement in the oil and gas industry, chronic under-investment and unilateral US sanctions – plus destruction caused by the 1980-88 war with Iraq – has steadily undermined the efficiency and morale of the sector. It has struggled in recent years to meet its production quota from the Organisation of Petroleum Exporting Countries.

The first indication of a change in attitude towards outside investment came several years ago, when Iran began talking to foreign oil companies about developing offshore fields in the Gulf. The rationale then was that Iran did not have the technology to exploit such reserves. The "buy-back" arrangement that emerged as the basis for contracts was a way around the constitutional ban on foreign investments in the sector.

The first offshore contract – with Conoco of the US – ignited a political storm, but one which was centred on Washington, rather than Tehran. President Bill Clinton banned the deal, which was eventually taken over by Total of France.

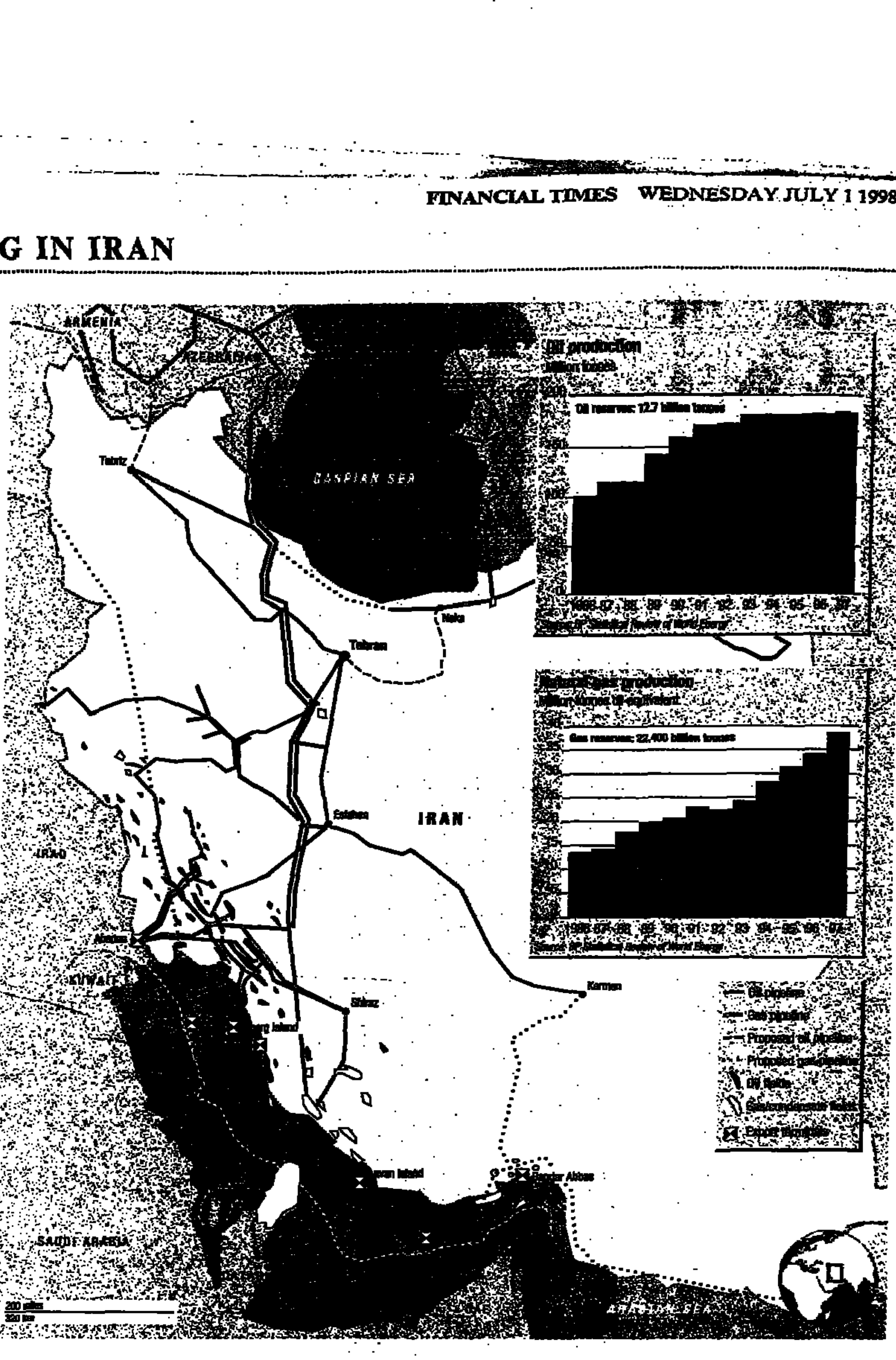
The $2bn Total deal to develop the South Pars gas field did not, however, trigger a rush by foreigners to pick up the other offshore projects on offer.

The terms and projects offered by Tehran were not seen as especially attractive, while the imposition by the US of the Iran-Libya Sanctions Act (Ilsa), aimed at preventing big foreign investments in Iran's energy sector, scared off many foreign companies, particularly ones with extensive interests in the US.

But the Total deal focused international oil company interest on Iran. And it helped break down internal Iranian resistance to a more ambitious foreign investment programme.

Last February Iran's *majlis*, or parliament, where conservative hardliners form the largest grouping, approved the government's plan to open much of the Iranian oil and gas sector, including onshore fields, to foreign companies.

The announcement by President Clinton in May that the US will waive threatened sanctions against Total, and its partners Gazprom of Russia and Petronas of Malaysia, removed the other big hurdle to large-scale foreign investment in Iran's oil sector.



ENERGY SCRAMBLE FOR FOOTHOLD IN INDUSTRY OF ONE OF WORLD'S MAJOR OIL PRODUCERS

Top companies lured by huge opportunity

By Robert Corzine

Iran has become an object of desire for the international oil and gas industry, with this week's London conference expected to attract representatives of most leading international oil companies.

Although the "buy-back" contracts on offer have limited attractions, the timing of Iran's opening to outside investment appears propitious. Political restraints on the US oil industry have encouraged European groups, which usually clash head-to-head with the US oil majors. But it is the sheer scale of the potential opportunity in Iran that is likely to be the biggest draw.

Although "buy-backs" have a limited life, companies sense an opportunity to secure a long-term position in the industry of one of the world's main oil and gas producers. They will also want to prepare for a possible wider opening of Iran's energy sector. The industry is in such a state, and many of the Iranian fields are of such an age, that a one-off financial fix is unlikely to solve its problems. Iranian officials are signalling that the tender process will probably be on-going.

Iran also offers the opportunity to build diverse, large-scale businesses. British Petroleum recently said it was interested in discussing deals across several market segments, such as exploration and development projects in northern and southern Iran, as well as petrochemical schemes.

The country's big gas reserves also appeal to those seeking large-scale export projects. Several companies, including Royal Dutch/Shell, have looked at multi-billion dollar pipeline proposals that would link giant gas fields with fast growing markets in south Asia. Others, including BHP of Australia, are looking at possible liquefied natural gas deals. Even Gazprom, Russia's gas giant, has been drawn to Iran.

Iran's gas reserves could also fuel a major expansion of the petrochemical sector, an area in which Tehran has failed to keep pace with other Gulf oil producers.

Iran's geographic position is also proving to be a draw. In recent months Tehran has been busy touting the benefits of using Iran as a land bridge between the Caspian Sea region and the Gulf.

Last month Iran issued a tender for a $400m pipeline to carry Caspian oil to refineries in Tehran and Tabriz, in the first concerted effort to establish itself as a transit route for oil from the Caspian Sea region. Up to 315,000 b/d of Caspian crude could be processed in the northern refineries, with an equivalent volume of Iranian oil made available to Caspian producers at Gulf export terminals.

The prospect of being able to integrate Caspian operations with projects in Iran may be especially appealing to big companies.

Smaller companies too sense a unique opportunity. Independents such as Monument Oil & Gas of the UK and Saga Petroleum of Norway are hoping to incorporate Iran into their corporate plans. But Iranian officials are expected to classify the projects on offer according to cost and technical complexity, and will probably restrict smaller companies to more modest schemes.

Although oil industry interest in Iran is widespread and genuine, there are lingering political and commercial concerns.

Companies such as BP and Shell with extensive US interests, may limit investments unless US-Iranian relations improve. There are also more practical worries about the ability of Iranian officials to deal with an expected deluge of bids.

'BUY-BACK' CONTRACTS SOME DRAWBACKS

Deals shaped with an eye to constitution

By Robert Corzine

"Buy-back" contracts that form the basis of Iran's plan to open its energy industry to foreign investment are a compromise to overcome Tehran's constitutional bar on foreigners "owning" any of its oil and gas reserves.

But will they prove attractive to foreign companies? Oil executives who have negotiated with Iranian officials say they probably will, although the "buy-back" concept has drawbacks for both sides.

Under the scheme, foreign companies will finance specific projects. Repayment, including an agreed rate of return on investment, will take place over a specified period from a field's output.

The Iranians are expected to demand quick payback periods to limit their financial exposure. Developments will probably be around three years, with a similar period for cost recovery.

At no time will a foreign company "own" any of the oil or gas produced, ensuring the arrangement stays within Iran's constitutional framework.

Foreign oil companies will be essentially contractors – a limited role most generally reject. But executives say the Iranian arrangements do have attractive features, not least the fact that the rate of return on investments – expected to be around 20 per cent, though it will vary from project to project – is insensitive to oil price movements. That is especially attractive during periods of oil price uncertainty.

"Iran is a portfolio play," said one foreign oilman. "You need something like that in your portfolio."

There is also no geological risk for most projects on offer, as the fields have been discovered and generally defined.

The key to profitability is expected to be the degree to which foreign companies can keep within the projected price they put forward for a contract. The National Iranian Oil Company (NIOC) is insisting on only a 10 per cent contingency reserve. Foreign companies that exceed the 10 per cent limit will have to make up the difference, which will not be recoverable.

Western oilmen say one weakness of the "buy-back" system is that there is no incentive for foreign companies to complete projects below the agreed budget.

Another potential weakness is that NIOC will operate the "buy-back" projects from the beginning, a requirement some foreign companies fear may limit operating efficiencies that might otherwise be expected.

The limited life of each project means foreign companies will also need to have a string of deals lined up to build a meaningful business in Iran based on "buy-backs".

Iran will probably have to offer better terms for the offshore exploration blocks it is expected to offer in the Caspian Sea, because of the high geological risk of failing to find any oil or gas in the region.

SANCTIONS GOVERNMENT HAD TO LEARN PRUDENT MANAGEMENT

US action underlines investment needs

By David Gardner, Middle East Editor

Washington's decision in May to waive sanctions on EU companies investing in Iranian oil and gas was savoured as a victory in Tehran. But while the clerical regime believes it is successfully breaking out from US attempts to isolate it, its economic managers are also aware that Iran has big investment needs which will be difficult to meet while unilateral US sanctions continue.

Washington imposed an embargo on Iran in 1995, and last year tried to extend this extra-territorially to non-US companies under the Iran Libya Sanctions Act (Ilsa). The sanctions have held up Iran's access to capital, technology and markets. But, paradoxically, they have had positive effects too.

A principal side-effect of Ilsa has been to legitimise foreign investment with both the Iranian parliament and a public opinion reared to believe that foreign involvement in the economy amounts to pillage of national resources. By setting its face against last year's $2bn (£1.2bn) Total-led investment in the South Pars gas field, and then grudgingly conceding it could do little to stop it, Washington has made foreign investment popular.

As a result of sanctions, moreover, the Iranian economy has arguably been better managed than it would have been. Certainly the government has as a result been prudent in its apportionment of foreign exchange and careful to maintain its credit by prompt servicing of foreign debt. Sanctions "made life a bit more complicated for us, more circuitous in managing the economy and planning our imports," says Ghafour Memarzadeh, head of the international division of Bank Mellat, the leading bank. But they have "also forced us to mobilise our resources, and to find better and more efficient ways of getting suppliers."

'Sanctions have forced us to mobilise our resources'

A further effect of sanctions has been to highlight that the Iranian economy, more than 80 per cent controlled by the state either directly or through the *bonyads* – foundations built from the assets of the late Shah and his allies – is not in a position to absorb the levels of investment Iran needs. The government has therefore been forced to look at the structure of the economy, and at least to begin debate on its reform.

Most of all, however, the sanctions have underlined Iran's investment needs. The government is expecting that the second round of "buy-backs" being launched this week in London will net $5.7bn. But this sum is already written into the current budget (which runs to March 20 next year) and planned imports of $16bn towards which the government expects to be able to stump up not more than $10.5bn.

Despite the attractions of Iran's hydrocarbons resources to international oil companies, this could be optimistic. In addition, Iran had budgeted for an oil price of $12 a barrel. At the time this looked conservative, but now looks hopeful.

"We are a country that is intrinsically and by tradition very dependent on foreign exchange," says one senior official. To return to relatively high stable growth of around 5 per cent in gross domestic product a year, officials calculate total external investment needs of about $10bn a year.

Enticing capital at this level not only requires that the government commit itself to structural reform, privatisation, and a legal framework to safeguard domestic as well as foreign private investment – all of which it is still far from doing. It also needs the overall perception of political risk to be lowered, unlikely to happen until the US starts to "normalise" relations with Iran.

While President Bill Clinton has held out this possibility, both houses of the US Congress remain hostile towards rapprochement.

In spite of the Ilsa waiver, the House of Representatives voted 392-22 and the Senate 90-4 for the Iran Missile Proliferation Sanctions Act (Impsa), mandating sanctions on foreign companies providing technology which could help Iran develop its ballistic missiles capability.

On June 23, Mr Clinton vetoed this "son of Ilsa" law. But leaders of both houses, backed by the influential pro-Israel lobby ahead of congressional elections in November, are determined to override the veto.

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Jerusalem expansion faces condemnation

By Judy Dempsey in Jerusalem and Laura Silber at the United Nations in New York

Some members of the United Nations Security Council were last night expected to criticise sharply Israel's plans to extend the boundaries of Jerusalem.

The plans, agreed by the Israeli cabinet last month, entail Jerusalem extending its jurisdiction to the west and east, stretching towards Jewish settlements in the West Bank.

The international community has never recognised Israel's annexation of east Jerusalem after the 1967 Six Day War.

The plans also include building a ring road which would sever links between Palestinian-controlled areas in the northern and southern parts of the West Bank as well as between the West Bank and east Jerusalem.

These moves run counter to the 1993 and 1995 Oslo accords which specifically leave the status of Jerusalem to final settlement talks, while "nothing shall prejudice or pre-empt the outcome of the negotiations on the permanent status".

Washington last week said it was "extremely hard to understand why Israel would even consider taking such a provocative step at this sensitive time in the [peace] negotiations". Bill Richardson, US ambassador to the UN, yesterday dismissed as "unhelpful" the Israeli plans, and called on Israel, and the Palestinians, to refrain from action that would "make these negotiations harder to begin and to conclude".

It was uncertain whether the council, which met at the request of Arab envoys, would agree on a resolution or even a presidential statement. Diplomats said the session could result simply in an "airing of views".

A draft of the resolution called on Israel to halt the expansion of illegal settlements which are "a major obstacle to peace", but Washington is likely to veto any UN motion criticising Israel, having already said the council debate was "counterproductive".

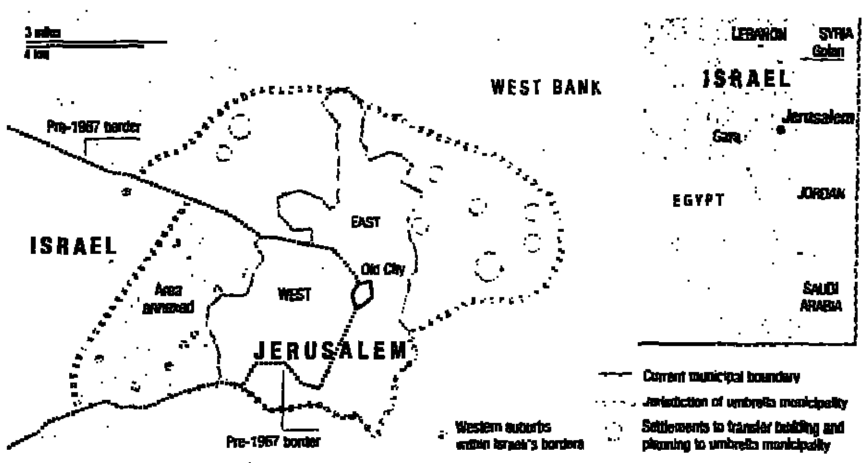
Madeleine Albright, US secretary of state, has been trying to restart Israel-Palestinian peace talks which were broken off 16 months ago after Israel started building a new Jewish settlement at Har Homa in east Jerusalem. But she has been repeatedly outmanoeuvred by Benjamin Netanyahu, the Israeli prime minister.

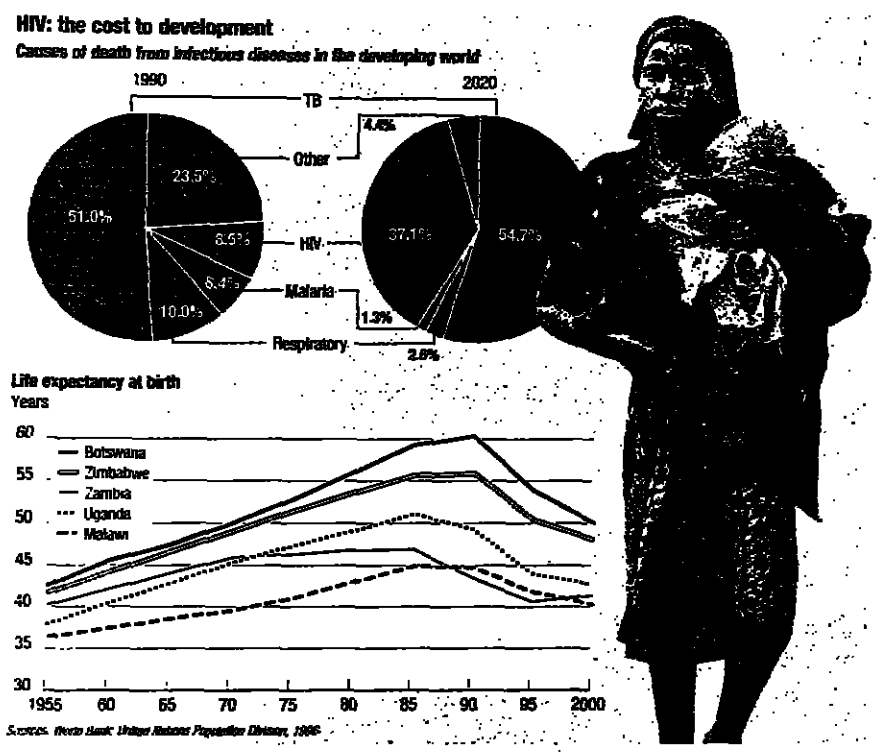
Mr Netanyahu has brushed aside international criticism, saying he expected the US "to do the right thing" during the UN debate, and telling Jewish settlers this week Israelis were the "landlords" of Jerusalem. At home, he has enjoyed minimum pressure from the opposition Labour party.

This could change following a sustained attack on his policies by Ezer Weizman, Israeli president. In recent days he has adopted an unambiguously critical stance towards Mr Netanyahu, accusing him of being "cut off from reality" while "the nation does not know where the prime minister is leading it".

Although Mr Weizman is known to speak off the cuff, his interviews with Israeli radio, television and newspapers were prepared in advance, signaling his determination to break through the opposition's wall of silence to Mr Netanyahu policies.

Mr Weizman dismissed any suggestion he was overstepping his powers, which are largely ceremonial. He said he had, after all, been asked by Mr Netanyahu to help restart the peace talks last year.





Tamed in the rich west by expensive miracle drugs, Aids is exploding in the poor world

David Pilling reports from Geneva on a global health disaster – but one that only affects those too poor to afford the cure

Third World delegates at this week's Aids conference in Geneva must feel like children in a sweet shop as they wander through the corporate stands offering the latest drugs to combat HIV, the virus that causes Aids. Except that, in this candy store, the jelly beans cost $15,000 and the sherbet dabs $20,000.

Virtually no one in the developing world, where 90 per cent of the world's 30m HIV victims live, can possibly afford the drugs that are working miracles in the west. Since 1996, triple cocktails of anti-retroviral drugs have successfully suppressed HIV levels in patients to below detectable levels, allowing North American and European patients to lead comparatively normal lives. Without the drugs, HIV brings certain death.

Thus, while the epidemic is being tamed in the west, it is exploding out of control in much of the developing world. In many southern African countries, one in four adults is HIV-positive. Life expectancy in Botswana, which recently touched 68, is likely to drop to the low 40s. India has 4m people with HIV, the highest total in the world. And although the disease has been slow to spread in China, it is now present in every province. That could lead to millions of new infections.

The contradiction between scientific progress in the west and the disease's acceleration in the Third World produces mixed emotions in Sam Kalibala, a Kenyan research associate of the Population Council in Nairobi. First, he is annoyed at his own government and those of many other developing countries whose economic mismanagement, he believes, has rendered them too poor to aspire to advanced treatment. Kenya, for example, can muster a health budget of just $10 a person a year. That is enough to pay for six hours of anti-retroviral treatment; to be effective it must be taken for life.

But Dr Kalibala is also angry with drug companies, which he believes are profiteering at the expense of the world's poor. "There is a sadness that, knowing we are so poor, they're still trying to make money out of us." Those drugs that do find their way to Africa – sometimes, though not always, at reduced prices – are used to treat high-ranking government and military officials, not the general public, he says.

World Aids conference

Some countries, such as Brazil, have pledged to do all they can to make advanced anti-retroviral treatment widely available. Brazil plans to spend $600m next year on therapy, twice the amount the international donor community will come up with for the entire world.

"If they can afford it, that's great," says Mead Over, a health economist at the World Bank and co-author of a Bank policy research report entitled Confronting Aids. But, he cautions, such a treatment-for-all policy is unlikely to be sustainable even in relatively prosperous Brazil. In Africa and the poorer countries of Asia it is out of the question.

Left unchecked, Aids will have wiped out Zimbabwe's development gains of the last four decades

This is not the counsel of despair, he insists. There are many practical policies leaders and donors can pursue, particularly (though not exclusively) where the epidemic is in its nascent stage.

Governments must concentrate on putting their prevention efforts where they are most effective, says Mr Over. This can often involve some very tough political choices, skewing scarce resources towards high-risk groups such as prostitutes or drug users who are not always top of everyone's priority list. Thailand, for instance, pursues a policy of 100 per cent condom use in brothels.

Since the policy began in 1991, the number of sexually transmitted diseases has fallen dramatically and the country appears to have the HIV epidemic in check.

Data collection is also vitally important, says Mr Over. If you do not know who is spreading the disease you cannot stop it. Many governments, for example, find it hard to accept that their militaries – full of sexually active, mobile young men – are an important conduit of infection. "How many countries have realised that their own soldiers are their biggest internal security threat?" he asks.

Governments should also spread information, both on how to avoid the disease and how to cope with it once infected. Mr Over supports big efforts on the treatment of opportunistic infections, such as malaria and tuberculosis, which prey on people whose immune systems are weakened. He does not believe, though, that Aids should take priority over other health problems, some of which may be preventable at much less cost – for example through the provision of clean water.

Neither, says Mr Over, does HIV necessarily wreak the economic havoc some have suggested. As devastating as HIV is in human terms, wealth per capita is often unaffected by the epidemic. In countries where the poor are disproportionately affected, per capita income may even rise.

Mr Over's views are controversial even within the World Bank. To some, they make sense where the epidemic is in its early stages, but where it is well established it smacks of too little too late.

Callisto Madavo, the Bank's vice-president for Africa, calls the epidemic the biggest single threat to the continent's development. "By 2010, life expectancy in Zimbabwe will be virtually where it was in the late-1940s," he says. "If the epidemic is left unchecked, we will have wiped out all the development gains we have made in the last four decades."

Speculators against the rand hold their fire

By Victor Mallet in Johannesburg

South African markets recovered some of their poise yesterday as the speculative assault on the rand subsided, but economists were unwilling to declare the currency crisis over.

"It's premature at this stage to call a turning point in the rand," said Carole Mason, group economist at Investec Bank in Johannesburg. "We've had such an enormous shock and it's happened so quickly. The external situation is still very volatile."

The rand has fallen 16 per cent in five weeks, with much of the decline recorded since last Friday.

Currency speculators have turned against emerging markets in general and South Africa in particular, partly because the Reserve Bank has scant foreign reserves to defend the rand and is also reluctant to push interest rates so high they choke off economic growth.

Late yesterday, the rand was trading at R5.89 to the dollar in a volatile foreign exchange market, after rising briefly to R5.79. It hit an all-time low of R6.15 on Monday. The Reserve Bank nudged up interest rates in the money market, where the average repurchase rate at which it lends to commercial banks increased to 20.21 per cent from 20.08 per cent.

The all-share index of the Johannesburg Stock Exchange rose marginally to 6,771.6, while the gold share index advanced 4.3 per cent to 872.4 as investors calculated the increase in rand profits gold mines would make from the sale of their output, which is priced in dollars.

As calm returned to local financial markets, middle-class South Africans – who have become obsessed in recent days with the rising cost of home loans and foreign holidays – reverted to more familiar topics of conversation such as crime and politics.

Meanwhile Sam Shilowa, general secretary of the Congress of South African Trade Unions, denied suggestions that the tripartite alliance of the ruling African National Congress, Cosatu and the South African Communist party was on the verge of collapse because of disagreements over the government's conservative economic policies.

"This is not a short-term alliance based on political convenience," he said. "It is a strategic alliance forged in the trenches of the struggle for political and economic liberation."

He acknowledged that there were arguments within the alliance but pointed out that they were as bad within each organisation as they were between the different groups. "If we took your point to its logical conclusion, it means that the ANC must split," he said.

UN chief discusses case of Abiola

Kofi Annan, United Nations secretary-general, met Abdusalam Abubakar, Nigeria's new military ruler, yesterday as government officials said Moshood Abiola, the detained politician, could be released this week, Reuters reports from Abuja.

Fred Eckhard, Mr Annan's spokesman, said the case of Chief Abiola had been on the agenda, as well as Gen Abubakar's promise to restore civilian rule.

The official said Mr Annan and Emeka Anyaoku, Commonwealth secretary-general, would discuss Mr Abiola's claim to the presidency on the basis of 1993 elections. The annulment of that vote lies at the root of a political crisis in the oil-producing West African country of 104m.

"The government is trying to get an undertaking from Abiola not to claim the presidency. If he agrees, then he could be released this week," the official said. "It will also show that Nigeria respects world opinion."

Mr Abiola, 60, has been detained since 1994 when he proclaimed himself head of state in defiance of General Sani Abacha, who died suddenly, aged 54, on June 8 as he headed towards presidential elections on August 1 in which he was the sole candidate.

Gen Abubakar has distanced himself from his predecessor's defiance of world opinion by ordering the release of more than 30 political prisoners and promising to establish genuine democracy.

World opinion has drifted away from supporting Mr Abiola's claim, as Tony Lloyd, visiting European Union envoy and British junior foreign office minister, made clear last Friday.

Mr Lloyd angered many Abiola supporters by saying the millionaire no longer had a valid mandate for the presidency. Those supporters, concentrated in south-western Nigeria, demand that Mr Abiola be made head of a national unity government as the only way to leave behind the 1993 elections fiasco.

NEWS DIGEST

CONGO BRAZZAVILLE

New rulers look for elections and IMF help

The Congo Brazzaville government, which took power last year after a civil war, said yesterday that it would hold elections within three years and possibly within months. Rodolphe Adada, foreign minister, (left) said the government hoped this month to receive International Monetary Fund approval for a national development programme. Mr Adada was speaking in London on the latest leg of a tour of western centres of power to promote his country's "fresh start" under the presidency of Denis Sassou-Nguesso, who was the country's military ruler between 1979 and 1992. Mr Sassou-Nguesso lost power after getting 17 per cent of the vote in a presidential poll. Mr Adada said the election had been delayed because of the "massive destruction" the country suffered during the four-month civil war, in which 10,000 people died. Mr Adada said the government intended to accelerate the rate of privatisation in an attempt to transform the mainly state-run economy. **Michael Peel, London**

TEHRAN TRIAL

Mayor puts up robust defence

Gholamhossein Karbaschi, Tehran's mayor, again mounted a robust defence of his nine years in office in the fourth session yesterday of his trial for alleged corruption, embezzlement and "influence-peddling". The trial, widely seen as an attempt by the conservative-controlled judiciary to discredit Mohammed Khatami, Iran's reformist president, is being televised live. Confronting the judge who, under Iran's Islamic law also acts as investigating magistrate as well as court prosecutor, Mr Karbaschi insisted that land and other transactions made on behalf of the Bonyad Mostazafan, the state foundation for the oppressed and disabled, had been properly documented and involved no impropriety. Mr Karbaschi got unexpected support from Ali Mohammed Besharati, a former interior minister under former president Hashemi Rafsanjani who also appointed Mr Karbaschi. Mr Besharati confirmed he had copies of the orders given to Mr Karbaschi to complete the transactions. **Robin Allen, Tehran**

ALGERIAN DEMONSTRATIONS

Protests over singer's murder

Thousands of Algerian Berbers marched through their city stronghold of Tizi Ouzou, east of Algiers, yesterday to protest at the murder of popular singer Lounes Matoub last week. In Algiers, anti-riot police and paramilitary gendarmes deployed at the main approaches to the city centre barred marchers from staging a similar protest. The protesters in Tizi Ouzou chanted anti-government, anti-Islamist slogans and urged the authorities to recognise the Berber language. **Reuters, Paris**

THE AMERICAS

NAZI GOLD US LAWYERS BRING CASE AGAINST SWISS NATIONAL BANK, CONTROLLER OF WORLD'S THIRD LARGEST GOLD RESERVES

Suit filed against Swiss central bank

By John Authers in New York, William Hall in Zurich and Richard Wolffe in Washington

US lawyers yesterday filed a lawsuit against the Swiss National Bank, Switzerland's central bank, alleging it had handled gold and other assets stolen by the Nazis during the war.

The move, which had been expected, followed several reports by independent agencies, including both the US State Department and a panel of historians appointed by the Swiss government. These suggested the national bank had handled more stolen assets during the war than any of the Swiss commercial banks, which have so far been the focus of lawsuits in the US.

The decision to sue in a US court is controversial because – unlike the commercial banks – the bank has no operating subsidiaries in the country. But lawyers for the Washington firm of Cohen, Milstein, Hausfeld & Toll said they believed it was appropriate to sue the bank in the US under the Foreign and Sovereign Immunities Act, which permits US citizens to sue foreign governments and their agencies.

Foreign governments usually have legal immunity, but US law provides several exceptions, which lawyers believe will apply in this case. These include a "violation of international law" exception, and a "commercial activity" exception.

The Swiss National Bank has no formal operating subsidiaries in the US, but it does control the world's third biggest gold reserves, and a large part is believed to be held at the New York Federal Reserve. The lawyers believe this enhances their ability to bring a suit against them in the US.

The bank said yesterday it had not been officially informed that a class action had been filed.

The SNB is unusual among the world's central banks in not being government-owned. It is an independent joint stock company owned 54 per cent by the Swiss cantons and the cantonal banks, with the remainder of its equity held by around 3,000 private shareholders. The SNB's shares are quoted on the Swiss stock exchange and closed SFr20 higher at SFr1,240 yesterday.

The move in New York coincided yesterday with a US government announcement of the end of the Allies' efforts to return looted central bank gold after more than 50 years.

Stuart Eizenstat, under-secretary of state, said the tripartite gold commission would be wound up in September, after distributing its final six tonnes of looted gold to countries invaded by the Nazis within 10 days.

Three-quarters of the gold – worth around $41m in total – will be paid to a fund to help victims of Nazi persecution. It will soon be worth around $57.5m, including pledges from countries such as the US and the UK.

Representatives of more than 40 governments met yesterday to finalise plans to trace other assets lost in the Holocaust – including art, insurance and jewels – at an international conference in Washington in November.

The World Jewish Congress yesterday placed its first estimates on the total value of all looted Jewish assets at between $9bn and $14bn, worth as much as $140bn in current prices. Half of the total assets were stolen in Germany and Poland, in the form of personal bank accounts and investments.

Stuart Eizenstat: announced winding up of tripartite gold commission yesterday AP

Fed warns banks not to let their lending standards slip

Robust economy may lead lenders to take unduly rose-tinted view of borrowers' prospects. Gerard Baker writes

For the past few months US officials have been travelling the world, advising Japanese and other Asian financial authorities about the crises in their banking systems – crises driven essentially by over-confidence in once surging economies, lax lending standards and poor supervision.

But as the Federal Reserve graphically warned yesterday, the mighty American economy is itself susceptible to much the same problems that have brought low the Asian economies over the last few years.

In an unusual early warning of potential difficulties in the financial sector, the Fed told banking supervisors nationwide to step up efforts to guard against a significant deterioration in loan quality as competition among banks for borrowers intensifies.

The Fed's recommendations flowed from a detailed survey it conducted into the lending standards applied by banks in approving loans to customers.

This analysis, comparing lending practices in the second half of 1997 with those applied two years earlier, uncovered "noteworthy and measurable easing in bank lending terms and, to some extent, bank lending standards".

Though the central bank was quick to point out that there had been no overall deterioration in loan quality, it made clear the still healthy state of banks' balance sheets owed much to the remarkable condition of the economy at present, not to especially prudent lending.

"The overall quality of loans may not have deteriorated significantly to this point, attributable in large measure to the salutary effects of a robust economy," the report said.

Three years ago the Fed conducted a similar survey and found a similar easing in credit standards in the years up to 1995. But as yesterday's report made clear, the US banking sector was emerging then from the long financial difficulties of the early 1990s, which forced many banks to tighten lending in what became known as a credit crunch.

In those circumstances the easing of lending standards might have been considered a return to normal, sound banking standards, the Fed said. But this time, there was little doubt the Fed is much more concerned about what it has uncovered.

The report found banks were far too focused on expectations of a continued rosy picture among their borrowers.

"Approval decisions may be more often keyed to the borrower's current financial performance and to informal, individualised judgments as to whether that performance is adequate to cover potential downside risk," the Fed said.

In its survey, the central bank found that in only 20-30 per cent of cases were banks producing formal projections of a borrower's future performance. Analysis of so-called "downside scenarios" were even less common.

The report also uncovered many instances where banks, in their competition to win business in the supercharged economy, were paying insufficient attention to the relative risks of different types of loans – lending spreads were falling rapidly for all types of business. One other big area of concern was the growth of unsecured lending to real estate investment trusts.

To head off the danger of further deterioration, the Fed issued six specific recommendations on how banks might improve the quality of their lending:

- Promote the use of formal, written credit policies;
- Ensure credit approval processes are handled by experienced credit professionals within banks;
- Adopt the use of thorough and standardised loan approval documents;
- Ensure forward-looking tools in loan approval processes – including full consideration of how things might go badly;
- Adopt internal risk rating systems;
- Check that proper management information systems exist to ensure that new lending fits within the bank's overall credit policies and does not lead to over-concentration of assets in risky sectors.

Though the Fed emphasised these were not new regulations, it made it clear that bank examiners across the country would be expected to pay much closer attention to the risks now growing in the US banking system. Though no one at the Fed would dream of saying it, the implication is that banks need only look across the Pacific to see the dangers inherent in their burgeoning self-confidence.

NEWS DIGEST

VENEZUELAN FINANCE MINISTER

Economic uncertainty heightened as Rojas quits

Freddy Rojas Parra, Venezuela's finance minister, yesterday announced his resignation only six months before the end of the government's five-year term, heightening uncertainty over over the country's economic prospects.

At the Miraflores presidential palace, Mr Rojas cited personal reasons for stepping down.

His resignation comes as a shortfall in oil revenue has opened up a budget deficit that could amount to as much 5 per cent of gross domestic product.

"It adds to the economic uncertainty caused by Hugo Chávez [a former coup leader] leading the polls" before December's elections, said Ricardo Penfold, senior analyst with Santander Investment Bank in Caracas.

Mr Rojas will be replaced by Maritza Izaguirre, Venezuela's representative at the Inter-American Development Bank in Washington. **Raymond Colitt, Caracas**

LATIN AMERICAN CONFERENCE

'Investment deterred'

Latin America's poor legal safeguards create an unattractive environment for investors and have hampered growth of the region's stock markets, a study for the World Bank has found.

The region should put better corporate governance at the top of the policy agenda, it recommends, after examining why countries in Latin America have fewer initial public offerings (IPOs) of shares and smaller, narrower capital markets than similarly wealthy countries.

The study, by Rafael La Porta and Florencio López-de-Silanes of Harvard University, finds that Latin American countries offer poor protection for creditors in case of corporate bankruptcy and weak enforcement of laws. Such weaknesses mean that funds are not encouraged into securities, and ownership of shares is concentrated in a few hands.

The findings were presented at a World Bank conference in San Salvador this week, when the case was pressed for institutional reforms in Latin America and the Caribbean to spur growth and reduce inequality. **James Wilson, San Salvador**

29-YEAR HIGH FOR INDEX

US confidence soars

Foreign economic crises failed to dent American optimism last month, as the consumer confidence index rose to 137.6, its highest for 29 years, according to the Conference Board in New York. While the overall index rose by 1.3 points from May's level, the widely watched Expectations Index, which triggered a decline in the indicator in May, rose nearly 2 points in June to 115.2. The Present Situation Index moved from 170.9 to 171.1.

"Most American consumers see both the economy and the job market as healthy and strong," said the Board, a New York-based business group.

Lynn Franco, director of the group, said: "Despite continuing turmoil in Asia and growing questions about the strength of the stock market, consumer confidence continues to top year-ago levels. The strong American job market continues to fuel consumer optimism, with little let-up in sight."

Only 9.5 per cent of Americans label current business conditions as "bad", about the same as in May. About 44 per cent say jobs are "plentiful". **Nancy Dunne, Washington**

WORLD TRADE

Europe sees surge in lift truck sales

By Peter Marsh in Stuttgart

European sales of lift trucks, a bellwether of overall industrial growth, are set to expand by 12 per cent this year, according to forecasts by Linde of Germany, the world's biggest maker of these products.

The prediction underlines signs of stronger investment by many manufacturing and service sectors across the continent, helped by particular indications of expansion by much of German industry.

According to Linde, sales of lift trucks in western and eastern Europe are likely to reach 230,000 this year, compared with 205,000 last year.

"The market is improving and we think there will be further strong demand next year," said Gerhard Full, Linde's chairman, in an interview.

European sales of lift trucks total about $5bn a year. They are used to move a range of products by companies in such sectors as distribution, manufacturing and retailing. Sales in recent years have been boosted by greater use of just-in-time methods in manufacturing and distribution. Sales of the products in Europe grew 7 per cent in 1997 compared with 1996 and there had been worries in the industry that sales growth would decline this year.

However, according to Mr Full, the biggest single factor affecting the strong increase in demand this year has been signs of strong investment in Germany – which accounts for about a quarter of total European sales of the products. "We are seeing signs of companies in Germany reshaping their operations and also catching up with a backlog of demand from the past when investment was relatively low," said Mr Full. He also said strong growth in demand had been registered in Spain, Britain and Italy.

Linde accounts for about a third of lift truck sales in Europe, including both specialist warehouse trucks and sales of other trucks normally seen in factories and goods yards. Other large companies include Nacco of the US, Toyota of Japan and Jungheinrich of Germany.

The signs of stronger demand are causing Linde to increase production at its plant in Aschaffenburg, Europe's biggest lift truck factory, from 20,000 last year to 23,000 this year.

Indications of an uplift in the lift truck industry coincide with forecasts by the VDMA, the trade association for Germany's engineering industry, but output by German engineering companies will increase this year by 7 per cent, the biggest year-on-year rise since 1989, as a result of stronger manufacturing investment across Europe.

Delay on modified seeds urged

By Robert Graham in Paris

The French parliament has recommended a two-year moratorium on the introduction of genetically altered rape seed and endorsed the Jospin government's cautious approach to the use of new types of corn.

The recommendations were made in a report prepared by the national assembly's scientific evaluation office, assessing the implications of using genetically altered products on agribusiness and the food chain. The assessment is not binding but underlines the continued *concern felt by French* public opinion about the country's important agricultural community becoming dependent upon widespread use of genetically altered seed in order to raise productivity.

In March this year France voted against the EU's authorisation of genetically altered rape seed. The report followed this up by suggesting there should be no change in the authorities' attitude, observing a moratorium "for two years up to the year 2000."

However, the focus of debate has been on the use of three new varieties of corn produced by Novartis, the Swiss multinational, which were authorised by the government last November. Here the report said that "barring new scientific evidence", the Novartis permit should be allowed to continue on an experimental basis for three years.

The report warned that the three types of Novartis genetically altered corn should only be put on the market in conditions of strong "bio-vigilance" involving a transparent process of labelling.

Yesterday's assessment followed a "citizen's conference" staged 10 days ago under the aegis of the same parliamentary office in which experts were questioned by a panel of ordinary people. The conference highlighted the extent of public confusion on the issue.

BAe wins US arms contract

By Alexander Nicoll, Defence Correspondent

Royal Ordnance, the munitions subsidiary of British Aerospace, is to operate the US army's high explosives plant in Tennessee under an unusual contract announced yesterday.

The award to a Virginia-based subsidiary of the British company increases the foothold of UK defence companies in the US at the same time as BAe is negotiating with European rivals on consolidation of the weapons industry across Europe.

Royal Ordnance will operate and maintain the Holston army ammunition plant at Kingsport, Tennessee, which is the only US manufacturer of the explosives HMX and RDX.

Under the $75m 25-year contract, the US government will continue to own the plant, but Royal Ordnance will employ the workforce which will be roughly halved from the existing level of 420.

Royal Ordnance will be the sole supplier of HMX and RDX to the US army for five years under a separate $88m contract. Because the Holston plant will be temporarily closed while it is modernised, 40 per cent of the explosives under this contract will be made at its plant at Bridgwater, Somerset, UK.

The aim is not only to supply the army but to attract new business to Holston when it has been modernised. In addition to meeting normal US needs, Holston has to be kept ready to produce large quantities to replenish stocks if the US becomes involved in a major conflict.

Winning the contracts in a competition with two other bidders will give a boost to Royal Ordnance, which last year failed to win an important order for towed howitzers in the US and has been rationalising in the face of reduced demand for ammunition from the British army.

It supplies warheads for several US-made missiles and is competing for US contracts including the Joint Stand-Off Weapon and special penetrative warheads for cruise missiles.

With the munitions industry in Europe heavily over-populated by national suppliers with much-diminished order books, BAe is believed to be discussing joint ventures between Royal Ordnance and companies such as Rheinmetall of Germany.

Six European governments will next Monday sign a letter of intent intended to smooth defence industry rationalisation.

Challenger tank, Page 12

Caribbean leaders' plea to EU on banana plan

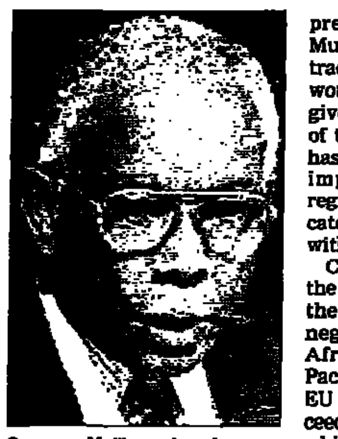
By Canute James in St Lucia

Leaders of the Caribbean Community (Caricom), concerned about changes being contemplated by the European Union to its banana import regime, will urge Brussels to adopt less radical alterations which they feel will not severely damage the economies of several islands dependent on trade in the fruit.

The leaders of the 15-member community are uneasy about aspects of the EU plans, although some consider the changes to be "inevitable," according to delegates to the annual summit of the 15-member community in St Lucia. The EU is proposing to scrap its system of licensing imports which the US and some Latin American exporters claim discriminates in favour of Caribbean producers.

"From what we have seen of the proposed changes, the Windward Islands which depend on banana exports for a half of their export earning, will be hardest hit," a senior St Lucian government official said yesterday. Other producers such as Belize, Jamaica and Suriname would also be hurt but less so.

Caribbean leaders are concerned that the EU considers increased aid is one answer to the problems the region



Seymour Mullings: Jamaica disturbed by US lobbying of EU

will face if its banana market is disrupted. The region wants trade, not aid, say delegates, and needs time and help in diversifying island economies from over-dependence on preferential access for their bananas.

Some governments are also unhappy about what is perceived as continuing US efforts to influence the shape of a new EU banana import regime, and feel Washington should stay out of the matter after its successful complaint to the World Trade Organisation.

Jamaica is "extremely disturbed" that the US has been lobbying some EU members to oppose the European Commission's proposals for changing the banana import preferences, said Seymour Mullings, the island's foreign trade minister. "Such action would be most unfortunate, given that under the terms of the WTO's ruling, the EU has until January 1 to start implementing its new regime, and has already indicated its intention to comply with that decision," he said.

Caricom leaders will use the summit to prepare for the start in September of negotiations between the African, Caribbean and Pacific (ACP) group and the EU for a trade pact to succeed the Lomé Convention, which expires in 2000. The region is opposed to EU suggestions that six regional pacts, rather than one convention, would be more suitable in meeting the different needs of the 71 ACP members. There is also continuing concern about the EU's plans to link future assistance to the manner in which ACP governments conduct themselves.

Caricom is moving towards the creation of its own common market, which its leaders say will help members prepare for the hemispheric Free Trade Area of the Americas, planned for 2005. However, some of the community's smaller members worry that the customs union and open markets will put their economies at a disadvantage. **Editorial Comment, Page 23**

NEWS DIGEST

IMPORT TAX

Russia acts to protect domestic sugar producers

Russia plans to introduce a tax of between 60 and 70 per cent on raw sugar imports to protect national sugar producers, the ministry of industry and trade said yesterday..

An official said a final decision on introducing taxes was expected within the next two weeks. The commission also planned to introduce a tax on white sugar imports, he said, but he did not specify the level.

"The question of taxes on white sugar (imports) needs serious examination and I am not yet ready to name the figure," he said.

Russian raw sugar imports had climbed to 2.53m tonnes in 1997 from 1.253m in 1995. In the first half of 1998 raw sugar imports grew to 2.8m tonnes, a fourfold increase year-on-year. At the same time sugar beet output in Russia fell to 1.337m tonnes in 1997 from 2.064m in 1995. **International Staff**

Commodities and agriculture: markets report, Page 30

MAGAZINE DISPUTE

Canada rules out adverts tax

The Canadian government has ruled out taxing advertisers who place advertisements in US magazines sold in Canada.

The proposal was one of several under consideration by the federal government to protect Canada's magazine industry, primarily from US publishers that want to print Canadian editions heavily laden with foreign advertising. That would enable magazines such as Sports Illustrated to offer cheaper rates to Canadian advertisers.

Advertisers, however, strongly opposed the proposal and the Canadian government is considering a number of other options.

One alternative would be to provide direct subsidies to Canadian magazines, but that would be costly for taxpayers and would make publishers dependent on the federal government.

Canada is scrambling to devise measures to protect its magazine industry in the wake of a World Trade Organisation *ruling last year that Canadian regulations* designed to protect national publications contravened international trade laws.

Canada is obliged to rescind those measures, which include import tariffs and postal subsidies, by the end of October. **Scott Morrison, Toronto**

AERO ENGINE COMPONENTS

Marubeni in Rolls-Royce pact

Marubeni of Japan and Rolls-Royce of the UK have reached agreement on the development of the Rolls-Royce 500 jet engine for long-haul jet aircraft.

The Japanese trading house will cover up to 10 per cent of the development costs in exchange for rights to make parts for the turbine.

Marubeni is the first Japanese trading house to enter the aircraft parts manufacturing sector. Fiat of Italy and Lucas Industries of the UK have also indicated their intention to participate in the project, but Marubeni will have the largest stake in the development programme.

The Trent 500 is set to be used in the A340-500 and A340-600 long-haul aircraft made by Airbus Industrie. **International Staff**

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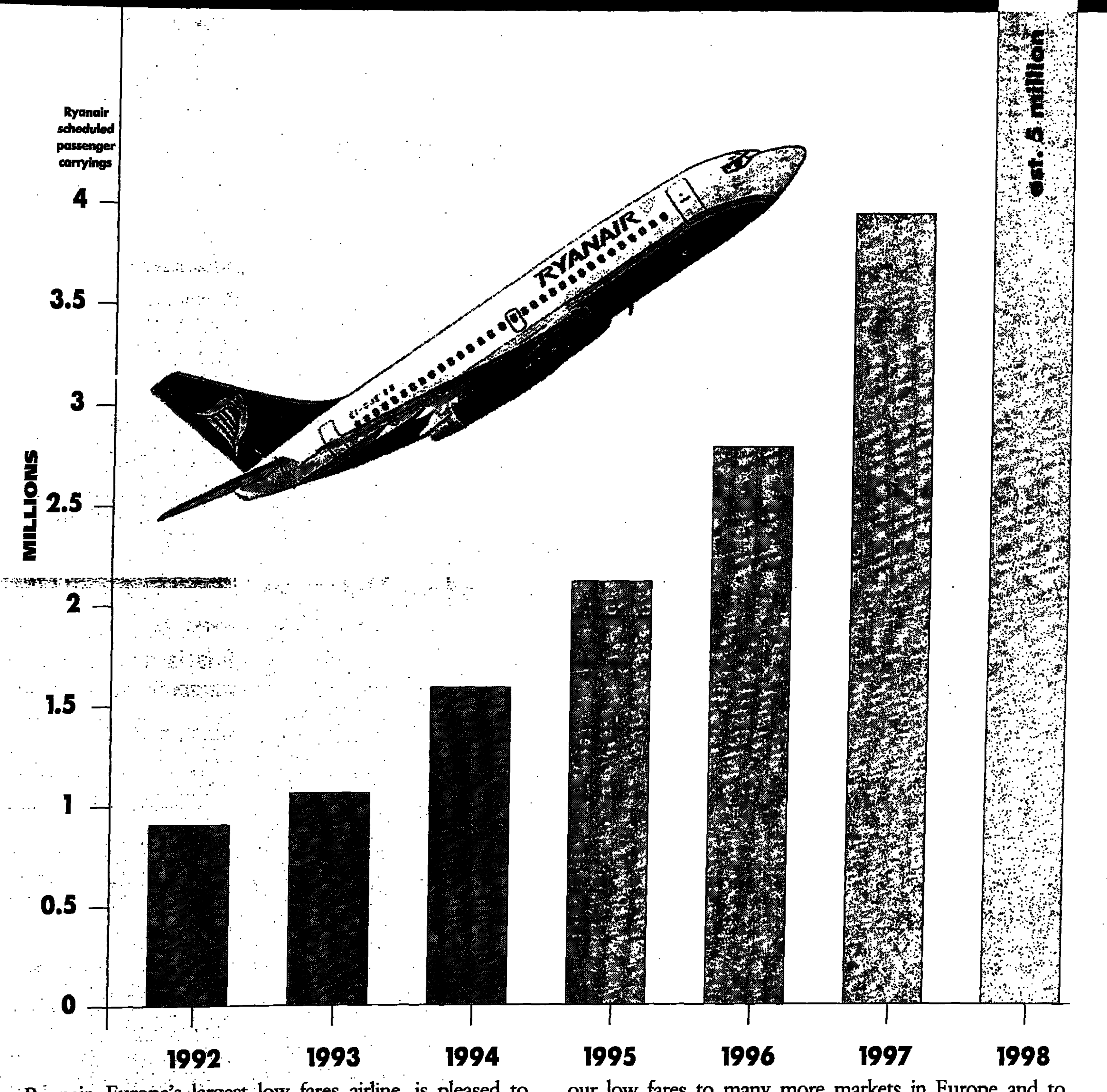
SINCE INTRODUCING BOEING PLANES IN 1993 WE'VE BEEN GROWING UP, UP AND AWAY!



Ryanair, Europe's largest low fares airline, is pleased to announce the acquisition of 45 Next Generation 737-800 series aircraft from Boeing, the world's largest aircraft manufacturer. These aircraft will enable Ryanair to offer our low fares to many more markets in Europe and to continue to expand Europe's largest and most successful low fares airline. Ryanair and Boeing, an unbeatable team!

RYANAIR
THE LOW FARES AIRLINE

BOEING

ECONOMIC STIMULUS HOUSING REFORM SEEN AS WAY TO REINVIGORATE CONSUMPTION

China unveils further cut in interest rates

By James Kynge in Beijing

China announced its fifth interest rate cut in just over a year yesterday in an attempt to stimulate an economy which is being hit increasingly hard by Asia's financial crisis and flagging domestic consumption.

Commercial bank lending rates are to be cut from today by an average 1.12 percentage points to around 6.5 per cent for loans of up to six months, and around 6.9 per cent for loans of up to one year, the official Xinhua news agency said. Deposit rates are to be cut by an average 0.49 points.

Economists said the cut appeared timed to boost demand for mortgages and *spur the commercial sale of* China's state-owned housing stock which was due to start today. Around 90 per cent of China's urban homes are still owned by state organisations, and commercial banks have promised to make available RMB100bn ($12bn) in mortgages, up by more than RMB72bn compared with last year.

The government lead by Zhu Rongji, China's premier, hopes that housing reform will provide the economic impetus to reinvigorate domestic consumption and compensate for a flagging export performance. Officials have said the sale of state-owned houses, using mortgages of up to 70 per cent of the purchase value, could add 1.8 percentage points to gross domestic product this year. Some of this would come in home appliance sales.

The rapid decline in export growth, which contributed about 2 percentage points to last year's 8.8 per cent GDP growth, has prompted the government to find new ways – such as housing *reform and increased* infrastructure investment – to attain a GDP target of 8 per cent this year.

In the first quarter, growth was 7.2 per cent and some economists expect that pace to slip further in the second quarter.

Chinese leaders, during a US-China summit last week, reiterated a pledge not to *devalue their currency*, the renminbi, despite a weakening export performance. Exports fell by 1.5 per cent in May, their first registered decline in 22 months and far below the 20.9 per cent increase for the whole of last year.

Economists said that the interest rate cut might also have been intended to *support China's domestic stock* markets, though some of the earlier rate cuts this year have failed to impress portfolio investors.

Shanghai's hard-currency B share index closed slightly lower yesterday at 40.8 – near its low for the year – before the interest rate adjustment was announced.

China's President Jiang Zemin (left), with Tung Chee-hwa, Hong Kong chief executive, being greeted on his arrival to celebrate the anniversary of the former colony's handover from Britain Reuters

Unemployment rate soars in Japan

By Gillian Tett in Tokyo

The jobless rate among Japanese men surged to a post-war high of 4.3 per cent last month, pushing it above the comparable rate in America.

This is only the second consecutive month that Japanese male unemployment has overtaken the US. In April Japanese male unemployment was 4.2 per cent while in the US it briefly dipped to a low of 3.9 per cent, before rising to 4.2 per cent in May.

The reversal highlights the dramatic divergence between America's current buoyant economy and Japan's economic downturn.

Nevertheless, these new picture of economic gloom in Japan yesterday also fuelled hopes that the government will soon unveil more economic reform – particularly as the US is now appealing for fresh action by Tokyo to prevent a slump in the yen.

The Nikkei 225, the main stock market indicator, for example, surged 3.02 per cent to close at 15,830.27 after new signals emerged that Japan is preparing to tackle its banking crisis.

Tomorrow the ruling Liberal Democratic party will unveil plans to create a "bridge bank" with a mandate to seize the assets of failed bank, according to plans approved yesterday by Ryutaro Hashimoto, Japan's prime minister.

The scheme would operate in a similar manner to the model used to clean up the US savings and loans crisis of the early 1990s, Mr Hashimoto said. This means that if a private bank failed it would be temporarily turned into a government-controlled bridge bank under new management.

The new institution would sell off bad assets, but temporarily maintain lending levels to sound borrowers, using, if necessary, funds from a recently announced Y30,000bn ($212bn) financial support package.

The scheme's main aim is to prevent a commercial bank failure from triggering the sort of bankruptcies among healthy corporate borrowers that would further hurt economic growth.

Bummei Ibuku, labour minister, said yesterday: "The unemployment situation is very severe now. It is difficult to solve it unless we solve the banking problems and bad loan [problems]."

The government yesterday put May's jobless rate for men and women at 4.1 per cent, the same as in April, which was a post war high. Peter Morgan, economist at HSBC securities said: "This is just a pause after the big jumps seen in the previous two months. It looks bound to rise above the US rate of 4.3 per cent soon."

Many economists suspect the Japanese data probably understates the total compared with US figures as it uses a very narrow definition of "unemployed".

Jakarta starts to pay arrears

By Sander Thoenes in Jakarta

Bankers said yesterday that Indonesia's central bank had started but not completed payments for more than $1bn in trade arrears owed by commercial banks, boosting chances for a resumption of trade financing and rescheduling of $9.2bn in bank debt.

Indonesia pledged earlier this month to pay all short-term and trade arrears owed by banks to foreign lenders before July, meeting a condition for rescheduling of $9.2bn in off-shore bank debt over four years. International banks have also pledged to resume trade finance for Indonesian banks, vital for reviving exports, were this condition met.

Yesterday's deadline was also the first test for a wider debt rescheduling pact, signed in Frankfurt, which provided a framework for renegotiating payments of more than $70bn in corporate debt. "Partial payments have come through in bits and pieces," one foreign banker in Jakarta said. "They have all been made by the central bank."

Bankers said full payments were not expected, in part because of delays in reconciliation of debt claims between Indonesian and foreign banks. "It's a huge logistical nightmare," one banker said. "As long as a good start is seen I don't think June 30 is so vital."

The central bank payments on behalf of commercial banks will be regarded as loans, adding to some Rp144,000bn ($9.5bn) provided in liquidity lending to dozens of struggling banks.

The arrears include overdue trade arrears, money market debt and forward contracts of less than six months. They do not include some $15bn in forward swaps, widely used for speculation by banks.

It is unclear to what extent international banks will meet their pledge to resume trade financing to the level they provided in April, already a fraction of financing offered a year ago.

As the rupiah has lost a third of its value since the agreement was signed, many bankers say the corporate debt rescheduling framework appears unlikely to attract many debtors or creditors.

Shanghai restores synagogue

By James Harding in Shanghai

Shanghai has restored one of the last remaining synagogues in China, reopening to the public for the first time in more than 40 years the most important place of worship for the city's once flourishing Jewish community.

Madeleine Albright, US secretary of state, and Hillary Rodham Clinton, the First Lady, will visit the refurbished synagogue today, reinforcing the message of pluralism and religious freedom that has been central to President Bill Clinton's tour of China.

The Ohel Rachel Synagogue in the centre of Shanghai hosted its last Jewish service in 1952, after which China's Communist government took over the grand Spanish-style building. In recent years it has been used for storage by the municipal Education Commission.

But the synagogue was once the most prestigious house of prayer for the city's prominent community of Jews. In the late 19th century, Jewish merchants came to China from Iraq via India and, later, some 20,000 Jews escaped central Europe during the second world war and found refuge in Shanghai – the only place in the world at the time for which a visa was not an entry requirement.

The Shanghai government pledged earlier this year to restore the run-down, ivy-covered old synagogue, spending RMB500,000 ($60,000).

But Jews will not be able to hold services at the Ohel Rachel. The Chinese government's strict regime of religious control recognises only Buddhism, Islam, Christianity and Daoism and does not officially permit Jewish services. The 300-strong community of expatriate Jews living in Shanghai today hold services in hotels or private residences and the authorities pretend not to notice.

Rabbi Arthur Schneier, who was part of a delegation chosen by President Clinton to consider issues of religious freedom in China and lobbied for the restoration of the synagogue when he met Shanghai's mayor, Xu Kuangdi, earlier this year, said yesterday: "Just as there was a glorious past of Jewish life in Shanghai, going back to the silk traders, we will see the growth of the expatriate Jewish community here again."

Graduates feel the squeeze of an economy in trouble

Alexandra Harney on the decline of job opportunities for the young

Ask Ando Kana, a 22-year-old recent university graduate, about the future of the Japanese economy and she paints a dismal picture. An architecture major who was turned down by several design companies last year, Ms Kana now works as a guard at a construction site.

"Thinking about the future makes me anxious. With so many construction companies going bankrupt, you have to be careful where you look for a job," Ms Kana says. On her early morning commute, she picks up a weekly magazine to check the latest listing of companies that have gone under.

Caught between employee cutbacks and cost reductions of massive corporate restructuring and a banking sector burdened with bad loans, Japan's university graduates are feeling squeezed.

Unemployment, which hit a record 4.1 per cent in April, is highest among those aged 15 to 24 at 8.3 per cent, according to the Ministry of Labour, followed by those between 55 and 64 at 4.9 per cent.

"In an over-regulated labour market like Japan, younger people take the brunt of a recession. The problem is that the easiest way for companies to cut back is not to hire new graduates" because of older workers' employment contracts, says Jason James, economist at HSBC James Capel in Tokyo.

Japanese companies, facing collapsing profits and a credit crunch, are hiring more temporary staff, cutting working hours, encouraging their older employees to retire early, and holding back on new hiring. With bankruptcies on the rise, opportunities for new entrants to the workforce are dwindling. These changes have forced Japan's recent graduates to take a tougher look at the companies they choose.

As a graduate of top-ranked Keio University who is interviewing at think tanks and securities firms put it: "In the past, people chose companies by name alone. But last year, when so many banks were in trouble and Yamaichi Securities went bankrupt, we all realised that just because it is a big company with a well known name, it doesn't mean that it is totally secure. Now, hardly anyone is choosing companies only by name."

Instead, financially stable companies that offer practical experience – including linguistic, technical and computer expertise – are most in demand.

Foreign companies are the biggest beneficiaries of the recent shift in the labour market. The number of new graduates applying to foreign companies jumped from 12.9 to 16.2 per cent last year, according to Recruit, Japan's biggest job search group. The changes are also bolstering applications to temporary staff companies and computer training schools.

One recent graduate of the prestigious Meiji University who enrolled in a master's programme after a job search in the public sector failed, says he returned to school because "information and knowledge, rather than goods, will be what makes money in the future".

Joseph Estrada prepares for his inauguration yesterday Reuters

Estrada vows help for Philippine poor

By Justin Marozzi in Manila

Vowing to put the poor at the top of his agenda and warning business of tough times ahead, Joseph "Erap" Estrada was yesterday sworn in as 13th president of the Philippines.

Hundreds of thousands flocked to Manila's Luneta Park to hear the former movie star outline his administration's programme for the next six years. In a combative inaugural address peppered with populist promises and nationalist asides, Mr Estrada declared the hour of the masses had finally come.

"In the six years of the Ramos administration, the economy was paying big dividends to its biggest stockholders," he thundered. "This time, why not to the common people as well, for a change? Must, we always measure progress only by the golf courses of the rich?"

To roars of approval, Mr Estrada declared an all-out war against graft and corruption. Crime, which was at its worst in big business and government agencies and too often condoned by a corrupt judiciary, would no longer be tolerated, he warned.

Mr Estrada swept to a record victory in presidential elections last month. The poor, who represent about a third of the population, are captivated by the former big screen hero who once played gun-toting Robin Hood-type roles.

Yesterday, those who had gathered for the carnival-like inauguration were provided with 5,000 roast pigs and 20,000 chickens by a charismatic Catholic sect.

The business community has been largely impressed with Mr Estrada's cabinet appointments and a 10-point plan designed to minimise fallout from the regional turmoil. But with worse to come, analysts say the priority will be limited to containing the damage.

NEWS DIGEST

SALE OF AUCKLAND AIRPORT

NZ aims privatisation at 'mum and dad' investors

New Zealand "mum and dad" investors are being targeted by the government trying to sell its 51.6 per cent stake in the Auckland International Airport. The treasurer, Winston Peters, says that unlike previous privatisations of state assets, where most shares were sold overseas, this will be a "people's float" designed to keep control of the asset in New Zealand hands.

The government is expected to raise up to NZ$450m (US$229m) from the sale of its stake, which will be offered to all New Zealand residents with a minimum subscription of 1,000 shares. The indicative price range is between $NZ1.50 and NZ$2 a share.

Mr Peters said yesterday this was the first privatisation where the government had sold shares directly to the public. Previous state asset sales had first been offered to big international companies as the government sought to maximise the sale price. Terry Hall, Wellington

PROTESTER KILLED

European envoys quit E Timor

A three-man mission of European Union ambassadors left East Timor early yesterday in response to the killing of a pro-independence protester. Fearful of sparking new demonstrations, the ambassadors of the UK, Austria and the Netherlands broke off a visit intended to assess observance of human rights and hear Timorese views on a new proposal by President B.J. Habibie for limited autonomy in the territory.

Their arrival had sparked a wave of protests, and Indonesian security officials who accompanied them killed one Timorese and wounded four on Monday when a group of demonstrators attacked their van. One man was shot on Saturday during a clash between supporters and opponents of a referendum on independence.

Diplomats suspect the rally of pro-Indonesian Timorese had been staged by local officials loyal to Jakarta.

Mr Habibie abandoned Indonesia's hard line on the status of East Timor shortly after he took office but has ruled out a referendum. Sander Thoenes, Jakarta

THAI ECONOMY

Manufacturing output falls

The Thai manufacturing production index fell 16.6 per cent, year-on-year, in April as production declined in all leading industrial sectors except textiles, petroleum products and beverages, according to the Bank of Thailand. The effects of a dire liquidity shortage and a competitive export market were also reflected in other Thai economic figures yesterday.

The slump in domestic demand hurt vehicles and parts, construction materials and tobacco particularly. The private investment index contracted by 11.9 per cent – the steepest decline this year. William Barnes, Bangkok

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Regulator demands power station sales

By Andrew Taylor, Utilities Correspondent

National Power and PowerGen, Britain's two largest fossil fuel electricity generators, must sell some of their coal-fired power stations to reduce their "unacceptable" market power, the industry regulator demanded yesterday.

Professor Stephen Littlechild, the regulator, said generators last winter had increased system marginal prices, a key element of wholesale prices, by 30 per cent. This could not be justified by a rise in demand or reduction in capacity, he said.

The generators' strategy appeared to be to make a profitable withdrawal from coal fired generation "at the expense of customers and also at the expense of coal as a fuel for electricity generation," he added.

The government last week signalled that it wanted to see some power station disposals by the large generators as part of broad ranging reforms to make the electricity sector more competitive. Geoffrey Robinson, paymaster general, (a Treasury minister), *is understood to have* indicated that disposals by the two generators of 4000MW-6000MW, representing about 20 per cent of their coal fired capacity, would be satisfactory.

Prof Littlechild is thought to be looking for much greater levels of divestment. This could undermine government efforts to encourage generators to increase purchases of British deep mined coal while reforms are implemented. Previously, Prof Littlechild has indicated he would like to see disposals of up to 10GW. Yesterday, he refused to be drawn on the amount of capacity he would like to see sold but he was prepared to call for a Monopolies & Mergers Commission investigation if he could not reach a voluntary agreement with the generators.

National Power, which argued last week that further divestment was unjustified, said yesterday it would "be holding discussions with the regulator".

PowerGen has offered to sell a 2000MW power station, representing about 20 per cent of its coal fired capacity. It hopes this would free it to buy East Midlands Electricity, the country's third largest regional electricity supplier. PowerGen said on Monday it had agreed to buy East Midlands from Dominion Resources of the US in a deal worth £1.9bn ($3.17bn). Previously, ministers have prevented the generator from buying a regional supplier because of concerns over its market power. Prof Littlechild said the ability of the two largest generators to prevent decreases in generation prices when costs had fallen and new entrants had come into the market demonstrated "an unacceptable extent of market power".

A threat by the regulator to call for an monopoly probe persuaded the generators in 1996 to lease 6000MW of coal-fired capacity to Eastern Group. National Power in 1997-98 accounted for 21 per cent of UK electricity generation and PowerGen 20 per cent.

COVENT GARDEN MANAGEMENT REPORT REJECTS PRIVATISATION AND PROPOSAL TO MERGE WITH COMPANY

Opera board accused of arrogance on funds

Financial Times Reporters and agencies

The board of the Royal Opera House, Covent Garden, was accused yesterday of "arrogance and presumption" in its dealings with public funds, in a report from Sir Richard Eyre, formerly artistic director of the Royal National Theatre. He said the Royal Opera House "must seize the opportunity of its re-birth in the new Covent Garden" to open its doors to new audiences.

But he added that it needed more subsidy to sustain it. He rejected privatising the theatre or cramming in the English National Opera to save money. He said greater access by ordinary people was vital.

"The world of the subsidised arts has been tainted by the opprobrium that has attracted itself to the Royal Opera House," Sir Richard said yesterday.

A series of financial and management crises at Covent Garden had prompted Chris Smith, culture secretary, to ask Sir Richard to draw up a report. Mr Smith had floated the idea that the Royal Opera and the Royal Ballet should be merged with English National Opera and share Covent Garden's refurbished £214m ($358m) building, which is due to be completed in December 1999.

Following Sir Richard's report, published yesterday, Mr Smith acknowledged that the "magic bullet" solutions of privatisation or merger were now ruled out. He was reluctant to promise that Covent Garden would receive a higher subsidy: *much would depend on the* Government review of public expenditure which should be published later this month.

In contrast, Sir Richard said yesterday that the Arts Council needed an extra £60m on top of its annual budget of £189m to do a decent job. In return he said that arts companies must be better, and more accountably, managed – or lose their subsidy.

By the end of July, Mr Smith expects both the Royal Opera House and English National Opera to respond to specific criticisms made by Sir Richard. In particular, Covent Garden will be expected to bring its salaries into line with the rest of the subsidised sector; at the moment, Sir Richard estimates that it has two-thirds more jobs paying over £30,000 a year than comparable flagship arts companies such as the Royal Shakespeare Company.

It must also improve its stage crew working agreements; make a cost benefit *analysis of its marketing* budget; review the productivity of the chorus and orchestra; and introduce a system to allow the calculation of physical production costs. This could involve the combining of workshops with the ENO to create *economies of scale,* the only suggestion of pooled resources made in the report.

Sir Richard also suggests a more streamlined management structure led by an artistic director; higher prices for premium seats especially at first nights in order to cut the cost of cheaper seats; and no complimentary tickets for "opinion formers". He agrees with the Government that Covent Garden must improve access in the new house and increase its educational work. Mr Smith yesterday wrote to the heads of the two opera houses, urging them to take up Sir Richard's reform proposals as "an overriding priority".

But officials were at pains to point out – perhaps as much to Gordon Brown, the chancellor of the exchequer, as to a generally opera-sceptical public – that the culture secretary will not contemplate any increase in the companies' £15m Arts Council grant until "serious reforms" are up and running.

"There is absolutely no question of further money until they get their house firmly in order," said one, insisting no decisions could be made until the department's expenditure review was complete. "It's very much a question of action first, money later."

Sir Richard Eyre takes the stage before opera administration critic Gerald Kaufman, who chairs the Commons culture committee

EU court rejects sacking during pregnancy

By Andrew Bolger, Employment Correspondent

Employers may not dismiss a pregnant woman because of absences from work caused by pregnancy-related illnesses, according to a ruling yesterday by the European Court of Justice.

The judgment, binding on all employers in the European Union, is a belated victory for Mary Brown, a van driver from Glasgow, Scotland, who was fired eight years ago by Rentokil, the UK environmental services group.

The ruling is in line with the UK's 1996 Employment Rights Act, which said it was unlawful to dismiss an employee "because she is pregnant or has given birth, or for any other reason connected with her pregnancy or childbirth".

The Luxembourg-based court said contracts which gave employers the right to dismiss workers after a stipulated length of absence could not apply in cases of pregnancy: "Such a dismissal can affect only women and therefore constitutes direct discrimination on grounds of sex."

But it held a woman's absences after maternity leave may be used in computing the time that would justify dismissal under national law, on the same conditions as a man's absences, of the same duration, through incapacity for work.

The court was responding to a 1996 request from the House of Lords, which wanted a European ruling on how to interpret EU rules on equal treatment for the sexes.

"This is a significant strengthening of pregnant women's rights," said the the European Commission, which supported Mrs Brown's case in arguments before the court.

Mrs Brown was unable to continue driving for Rentokil two months after becoming pregnant, because of a related illness. Rentokil fired her 26 weeks after she stopped working because her work contract limited absences to 26 weeks.

Curtain down on policy of 'knowing recklessness'

A mixture of arrogance and incompetence destroyed public image as well as creating the vast deficit, says **Anthony Everitt**

Anyone who has ever taken a serious look into the Royal Opera House would have rubbed his eyes in bemused astonishment. Sir Richard Eyre is only the latest of a long line of assessors to condemn the organisation's management practices.

The chief responsibility for this situation lies at the doors of the board. In the 1980s and early 1990s, they spent what they thought they needed rather than what they knew they had in the bank.

Lord Sainsbury of Preston Candover, who was a board member and chairman for much of this time, was the leading proponent of this policy of (in Sir Richard's words) "knowing recklessness". The Arts Council and the government were to be shamed into making up any shortfall.

Alongside this, even though many of the country's top businessmen sat around its table, the board was never really able to get its hands on the levers of power at Covent Garden. Although its artistic record has been excellent, the administrative structure was decentralised.

The opera house was a labyrinth of Byzantine complexity where people were left in place long after the need for their services had vanished. This record of arrogance headily mixed with incompetence has not simply led to huge deficits. It has destroyed the ROH's public image.

This is why Sir Richard Eyre's key recommendation in his report for Chris Smith, the chief minister for culture, is so problematic. He argues that the organisation needs a larger revenue grant to help finance its operations – although only after a tough financial review (for example, top managers' salaries are to be reduced to the going rate in the UK arts world).

In the past 12 months, the board and management have been turned inside out and the organisation has been restructured. But these changes have all been effected in an atmosphere of confusion and mistrust. They have not noticeably enhanced the ROH's reputation.

Unless carefully managed, the Eyre report's recipe of lower ticket prices could simply mean for a theatre used to full houses that existing well-heeled audiences would receive an even better bargain. There is a limit to the number of video productions which broadcasters will transmit or video shops can sell.

What might attract popular support would be if the Royal Opera toured its productions around the country. But Sir Richard, sensing that costs might outweigh benefits, proposes only small-scale tours. Sensibly, privatisation has also been rejected as a viable option.

Without any subsidy at all, the Royal Opera might be able to afford festival seasons, becoming a kind of urban Glyndebourne, but is hard to see more than one of the two Royal Ballet companies, if that, making its way in the world without state support.

So what is to happen now? Sir Richard's call for increased subsidy is impractical at the present stage, especially in light of the government's preoccupation with its own public image.

One has the sense that he knows this perfectly well and his report presents no ambitious, revolutionary schemes.

NEWS DIGEST

JAPANESE 'OCEAN DOME' CONCEPT

Mitsubishi in talks over $250m project for resort

Mitsubishi Heavy Industries, which developed the Ocean Dome in Miyazaki, southern Japan, is discussing prospects for a similar project with restaurants and an artificial lagoon in the north-west England coastal town of New Brighton.

Wirral Council, the municipal authority for the town, hopes to secure UK government and European Union funds to help attract private backers for the project, expected to cost £150m ($250m).

New Brighton emerged as a coastal resort at the turn of the century, *and in its heyday boasted a pier, the second-biggest tower in Europe after the Eiffel Tower in Paris,* a cable car and Europe's biggest outdoor swimming pool. Its decline began in the 1960s as tourists went further afield.

Deloitte & Touche, the accountancy firm, is due to complete a feasibility study in August. **Sheila Jones, Manchester**

PENSIONS MIS-SELLING

Broker is fined $335,000

The Personal Investment Authority has fined J & H Marsh & McLennan, the insurance broker, £200,000 ($335,000) for compliance failings relating to the review into pensions mis-selling.

The regulator said it had also ordered Marsh & McLellan to pay costs of £5,600 and reprimanded the company after it failed to meet its deadlines for clearing up priority cases of people wrongly advised to opt out of occupational pensions into personal schemes in the late 1980s and early 1990s.

URBAN TRAFFIC CONGESTION

Move to make motorists pay

John Prescott, deputy prime minister and chief transport minister, is to press ahead with plans to charge motorists for driving in cities within the next two years, ending reports that the prime minister's office has shelved such moves until after the next general election.

Mr Prescott wants to move quickly because he feels the public is ready to embrace new charges for motorists, providing the money is re-invested locally in public transport. The new measures will be outlined in this month's transport policy paper, which will set out the government's plans to switch people from cars to public transport.

Initially motorists could be asked to buy a permit, to be *attached to their windscreen, entitling them to drive into a city* centre during certain hours. **George Parker, London**

ROYAL FAMILY

Pensioner prince has rail pass

The royal family's attempt to present a more frugal face to the world has led to Prince Philip and Princess Margaret acquiring old age pensioner's rail passes from the government, it emerged yesterday. Queen Elizabeth, on the other hand, has eschewed the pass and continues to enjoy the lavish pleasures of the royal train – which took her to the Epsom Derby this year at a cost of over £11,000 ($18,370). The details were revealed yesterday in the first annual report on the £17m royal travel budget, which showed an overall saving of £2m on the previous year. **George Parker, London**

HOUSE OF COMMONS

Action urged on junk faxes

The government yesterday came under renewed pressure to tackle the menace of junk faxes – the unsolicited mail which clogs up fax machines and gobbles up paper and ink. Christopher Fraser, opposition Conservative party MP for Mid Dorset, claimed that an increasing number of people were being "driven mad" by junk faxes, especially if they had a phone/fax machine at home. Mr Fraser promoted a bill in the House of Commons which would prohibit the multiple transmission of unsolicited marketing faxes without the prior consent of the recipient. The bill stands no chance of becoming law, but could influence ministers as they grapple with the problem of how to implement an EU directive which covers the same question. **George Parker and Alan Cane, London**

Web bookstore to sell US titles

By Alice Rawsthorn in London

Amazon of the US, the world's largest internet *bookseller, plans to launch* an amazon.co.uk retail site this year which will stock a large selection of US books as well as UK ones, and offer deep discounts on best-selling titles.

Simon Murdoch, managing director of Bookpages, the *UK-based online book* retailer bought by Amazon early this year, said the details of the UK launch were still being finalised.

However, he confirmed that Amazon will change the name of its UK retail site from bookpages.co.uk to *amazon.co.uk later this year.* The amazon.co.uk site went online yesterday but at present points consumers to *Amazon's US site* and to Bookpages in the UK.

When the site starts selling books, it will add US titles to Bookpages' existing 1.2m-strong UK stocklist. Mr Murdoch said it would offer "competitive" prices – as Amazon does in the US, where it discounts books by as much as 40 per cent.

Amazon is preparing for its UK launch at a turbulent time in the *fast*-growing online book market. Earlier this month, W.H. Smith, the UK's largest bookseller, bought the Internet Bookshop, the specialist online book store. Waterstone's, *Dillons and other significant* book retailers, are also expanding their internet activities.

Many UK consumers still order books from US-based sites, notably Amazon and the Barnes & Noble online operation. These US sites are *attractive to UK book buyers* because they offer deep discounts and an opportunity to purchase US titles before they go on sale in the UK.

Mr Murdoch said Amazon had decided to turn Bookpages into its UK base to offer a more efficient service *to customers in the UK and* other European countries. It hopes to supply "a large majority" of its UK customers "within two or three working days" of receiving their orders.

Amazon has not yet decided exactly how to expand its stocklist, but is talking with the Publishers Association, which represents UK book publishers, about *selling US titles* from its UK site.

In the talks, Amazon also hopes to clarify the legal situation on the copyright problems of selling US editions from its UK site.

'World-beating' tank reaches army 2½ years late

By Alexander Nicoll, Defence Correspondent

The British army took possession of its first regiment of Challenger 2 tanks yesterday, two-and-a-half years late.

The army's relief at receiving them was tinged with unease, however, about a likely reduction in the role of main battle tanks as a result of the government's defence review.

Some of the 38 tanks delivered by Vickers, the manufacturer, were put through their paces during a live firing exercise across the ranges at Fallingbostel in northern Germany.

Army officers said yesterday's handover ceremony underlined the UK's inten*tion to retain the capability* for high intensity warfare involving tanks, as well as a strong presence in Germany, where Britain keeps an armoured division.

But the trend in western armed forces is away from tanks, towards lighter, more mobile forces which can be deployed to the world's crises.

Some senior officers believe the Challenger 2 will be the army's last main battle tank. It is buying 67 Apache attack helicopters in *keeping with the new* emphasis on speed and mobility.

The Royal Scots Dragoon Guards are the first regiment to be equipped with Challenger 2s. The army has ordered 386 for £1bn ($1.67bn) plus £300m for logistics and support. John Reid, armed forces minister, witnessed the exercise and said the Challenger 2 was "truly a world beater with excellent prospects in the export market".

Vickers had to re-vamp *manufacturing processes, as* well as its relationships with suppliers, after the Ministry of Defence found too many faults in the Challenger 2 tanks in 1995 and delayed accepting them into service.

The ministry ordered a series of production reliability trials, which Vickers has passed. Sir Colin Chandler, Vickers chairman, said Challenger 2 "is not only the most formidable main battle tank in the world, it is also the most reliable".

The strategic defence *review, likely to be* published within the next two weeks, is expected to reduce the number of regiments equipped with tanks. Although the order for Challenger 2s is not likely to be reduced in size, some new tanks could be used, mainly for training.

Following the changes at its factories, Vickers is hoping to play an important role in consolidation of the overcrowded European armoured vehicles industry.

But it has so far won few export orders for Challenger 2 and recently lost out to a consortium including GKN, in a competition to build personnel carriers for European armies. German companies appear likely to be dominant in the European rationalisation.

NI assembly job for former non-alignment chief

By John Murray Brown in Belfast

Unionist leader expected to be made first minister today

David Trimble, leader of the Ulster Unionist party, is expected to be elected first minister of Northern Ireland's regional government when the newly elected assembly meets for the first time today, **John Murray Brown writes.**

John Hume, leader of the moderate nationalist Social Democratic and Labour party, is likely to be made deputy first minister.

Mr Trimble should be able to count on the support of his 28 assembly members, which *together with the two members* of the Progressive Unionist party would be enough to overcome opposition from the rival Democratic Unionist party which is pledged to block power-sharing arrangements with nationalist parties.

Lord Alderdice, who on Monday announced his surprise resignation as the leader of Northern Ireland's cross-community Alliance party, has been appointed initial presiding officer – or speaker – of the region's new assembly. He remains in the party.

Lord Alderdice leaves his position at a critical time, just four days after leading the *Alliance* party into the 108-seat assembly. It won only six seats – not enough for a place on the new decision-making executive.

He admitted that the election result "wasn't what I wanted. The standard I set myself for this election is that Alliance would get between *8* and *10 seats* and that would qualify us for a cabinet seat – we did not achieve it".

A close aide said Lord Alderdice had decided to stand down as leader after 11 years to make way for new blood. He was the youngest party leader in Northern *Ireland when he beat Sea*mus Close for the job in 1987.

A consultant psychiatrist and son of a Presbyterian minister, he was only the second Protestant leader of a party that has tried to attract support from Protestant and Roman Catholic communities.

When unionist parties refused to travel to Dublin – let alone talk to Sinn Féin, the Irish Republican Army's political wing – Lord (then Mr) Alderdice was conducting talks with parties in the Irish Republic. His formal links in the republic are with the Progressive Demo*crats, but he is also close to* Fine Gael, the largest opposition party which is led by John Bruton, the former prime minister. Indeed John Cushnahan, former leader of the Alliance party, is now a Fine Gael member of the European parliament.

Lord Alderdice was the first of the pro-union politicians to talk directly with Gerry Adams, the Sinn Féin *president, and his role strad*dling the divide between the two traditions has often been difficult. Many nationalists still see the Alliance party as apologists for the policy of the UK government – a suggestion Lord Alderdice strongly rejects.

His elevation to the House *of Lords,* the unelected upper house of the British parliament, gave his party a platform in Westminster. He was nominated *by Paddy* Ashdown, leader of the Liberal Democrat party. In the Lords, he takes the Liberal Democrat whip on non-Irish questions.

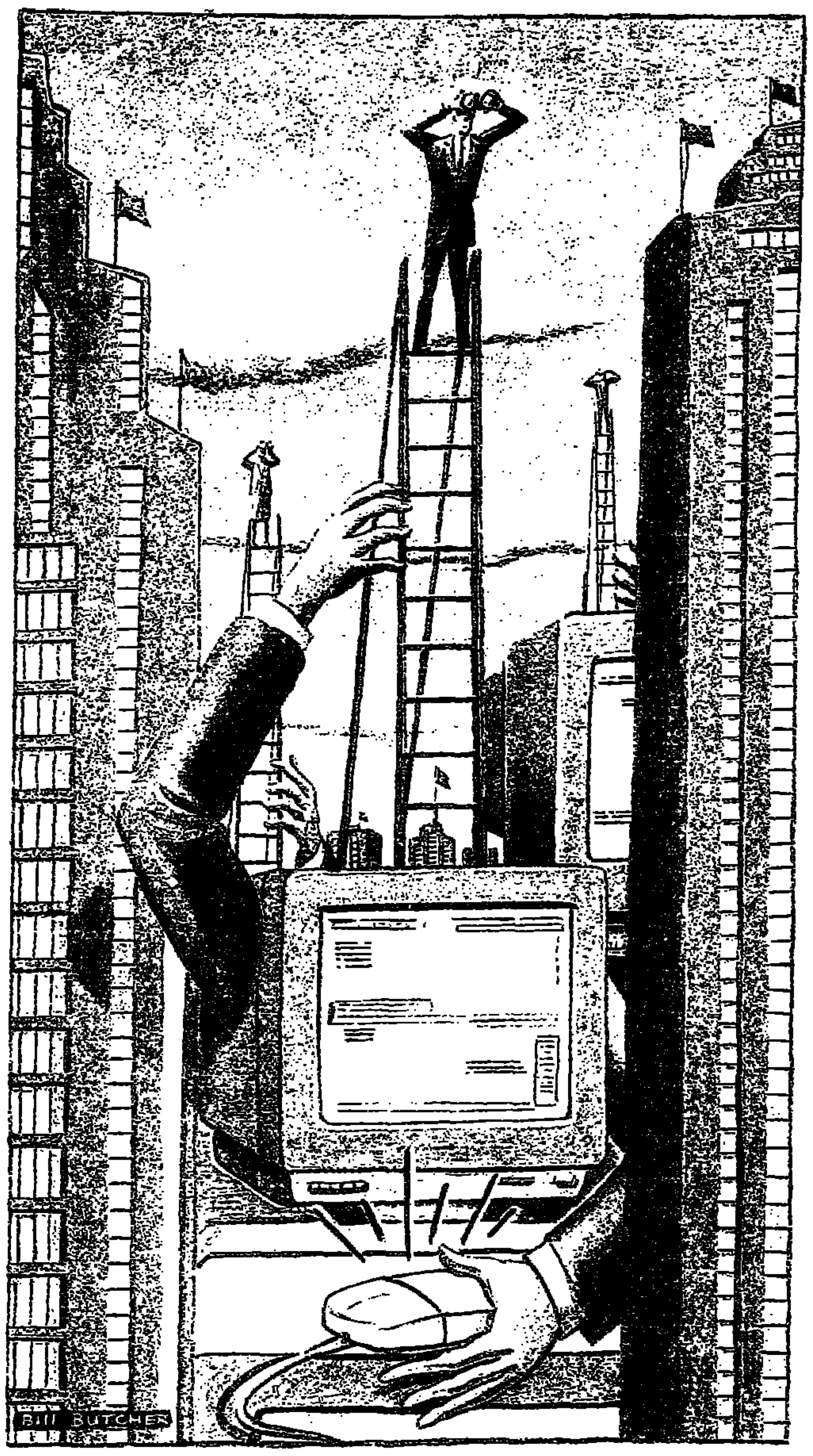
With the Northern Ireland assembly set up, the Alliance's role as bridge-builder will increase. Given the tight arithmetic of the assembly, there will be pressure on the Alliance to abandon non-aligned *status* so that it can be counted in one or other of the community voting blocs.

هكذا من الأصل

INFORMATION TECHNOLOGY ELECTRONIC COMMERCE

Cautious ascent by the smaller companies

Start-ups are being hyped but big organisations still dominate internet trading – at least for the time being, says **Vanessa Houlder**



Smaller companies, it is often argued, are poised to be the real winners from electronic commerce. The internet, the theory goes, makes size irrelevant. It levels the competitive playing field by allowing small companies to extend their geographical reach and to secure new customers in a way formerly limited to much larger companies.

But even if true in principle, there is still a yawning gap between theory and reality. Few online retailers are making profits; the exceptions are concentrated in a handful of industries such as books, software and compact discs. Doubts about the profitability of e-commerce weigh particularly heavily with smaller companies, which have neither the time nor the money to waste on technology that does not pay its way.

The scepticism may be overdone, however. Some smaller companies are already enjoying significant benefits from internet trading – even though they are neither US-based nor in the most popular sectors for e-commerce. One example is Climb, a climbing equipment retailer with two shops in the north of England, which became one of the first UK companies to offer online shopping two years ago.

Climb decided to experiment with internet trading on the grounds that its customers – who tend to be young and computer-literate with relatively high disposable incomes – were likely to be early adopters of e-commerce. It was quickly proved right. Before long, its web site was the equivalent of an extra shop generating annual turnover of £200,000 at its peak.

The web revolutionises the way people think, says Adam Hanlon, general manager. "People will go to the web for information to make choices where previously they would have gone to a shop or bought a magazine. As a marketing tool, it is crucial."

The success of Climb's e-commerce project was built largely on export orders, principally from Scandinavia. That flow of orders subsided as the value of sterling increased. But the downturn in turnover had few damaging consequences for business overheads, since the web site cost nothing but the cost of a server and the time of Climb's staff, who update the site.

But Climb is unusual in being able to conduct e-commerce so cheaply. The costs of setting up web sites can easily run into tens of thousands of dollars. Datamonitor, a research company, defines a small site as one that costs $10,000 to $15,000 to set up. A large site, it says, may cost up to $700,000.

Much of the cost results from buying in web management skills. Most small businesses run by people who are not technically inclined will prefer to find web specialists to design and maintain their sites.

That said, the skills needed to create relatively simple web sites are within the scope of many non-specialists. Several do-it-yourself kits are available that can help small businesses. Examples include the Floyd Consultancy's Shop Assistant (http://www.floyd.co.uk) which costs £199.99 plus VAT, Actinic Catalogue (http://www.actinic.com) which costs $349 and Inex (http://www.inex.com) which has products ranging from $49 to $995.

But companies considering setting up a transactional web page have to make a decision about how topical and sophisticated it should be. Companies that merely put a list of their products and prices on their web pages will find it hard to attract attention, unless prices are heavily discounted.

Web pages need to be both entertaining and frequently updated if they are to attract internet customers. But the need to maintain web pages is a problem for many companies. Indeed, concern about the resources needed to set up and maintain web pages properly was seen as the biggest barrier to e-commerce by 500 small to medium-sized international companies which took part in a survey by E-valuations Research for iCat, a Seattle-based web page design organisation.

Another prominent concern raised by this survey was security. Many customers prefer to fax or telephone their credit card details for fear that they could be intercepted on the net. A study recently conducted for the UK's department of trade of industry, found evidence that only 13 per cent of UK companies with web sites carry out sales online. More than two-thirds of companies said security was a chief concern.

e-question

'How can smaller companies exploit e-commerce, and are they being left behind? '

Worries about the security of credit card details are common to any business on the internet. But small, unknown companies on the internet have an extra problem in winning the confidence of their customers, who are more likely to place orders with companies they already trust.

So, will e-commerce take off among smaller companies? Levels of uptake and usage among small and medium-sized companies are still lower than in larger companies. That is particularly true for those employing fewer than 100, according to PPA Research.

The relatively low uptake of e-commerce among smaller companies has troubled many governments, who see small companies as a valuable source of growth and jobs.

At a conference a few years ago, the G7 countries resolved that they would together support initiatives aiming at filling the information gap for smaller companies on this issue.

Nonetheless, usage of the internet by smaller companies appears about to rise. Datamonitor predicts that by 2000, 60 per cent of all business internet connections in Europe will be in companies with fewer than 10 employees.

Growth in the use of the internet will be driven by small companies, as they realise the benefits of communicating over the net with their business partners. In addition, they will increasingly want access to the web and use of functions such as online banking, it says.

But even if smaller companies adopt e-commerce, what will it mean for their competitive position? Niche players, it can be assumed, will do well. Companies that offer unusual products may find a much larger customer base on the net.

But less distinctive companies may be disappointed. They will find that the internet extends their customer base only if they succeed in attracting new customers to their web sites. If retail customers gravitate towards a small number of web sites in each sector, under-resourced companies may find themselves at a disadvantage.

So big may be beautiful, after all. Forrester, the research company, says big European companies will use the net to get larger. "Europe's early growth period will favour deep pockets, leading brands, and readily summoned resources," it warns. "Given widespread net commitment in Europe, small start-ups have little advantage over real-world incumbents."

Information Technology
● The FT's review of Information Technology appears on the first Wednesday of each month

LOUISE KEHOE
EAGLE EYE

The end of the free ride

Until the internet makes good business sense for telephone companies, users will continue to get what they pay for – slow access and unreliable service

Why is it that you pay no more to send an e-mail around the globe than to send it across town? How *come the cost of sending an* e-mail does not depend upon its length? Shouldn't it be more expensive to access a distant web site than one closer to home?

The economics of the internet are one of the great mysteries of our time. Most internet data travels on telephone networks, *yet* seems to get a free ride. This has helped to spur consumer interest in the internet, by keeping prices low, but in the long term it may be unsustainable and perhaps not even desirable.

To unravel the conundrum of internet economics you have to dig into history. Beginning in the 1970s, the internet was created with US government funding to link researchers at universities and laboratories.

As the internet grew, the US National Science Foundation underwrote the cost of "backbone" internet links across the US, while telephone companies provided low-capacity local lines to internet users at *standard telephone rates*.

As high tech businesses began to use the internet, in the early 1990s, they paid for higher capacity phone lines, and a "commercial" backbone network was created for business users.

Even when the NSF withdrew its funding, in 1995, *telecom* companies continued to provide backbone services on a "peering" *basis. It was* assumed that each network carried traffic for the others, balancing costs, so no money was exchanged. This was all very well when the internet was used only by computer enthusiasts and researchers. But the explosion of commercial and consumer interest has changed the picture radically.

Telephone lines in the US are now carrying more internet traffic than voice calls. Data will represent *more than 90 per cent of* communications traffic within a decade, some experts are predicting.

From a telecoms industry perspective, the tail is wagging the dog. Networks *built and priced to carry* voice calls are being usurped by the internet. To accommodate the *rising* tide of data traffic, telephone companies are being forced to spend millions of dollars on extra network switches.

Local phone companies derive *minimal* revenue from carrying electronic mail and web access, particularly in the US where local phone calls are generally free. However, increased demand for phone lines has been a boon for phone companies. Second phone lines are now installed in over 15 per cent of US homes, largely to provide internet access.

Phone companies have also developed a booming trade providing businesses and internet access *providers with high speed* lines. Meanwhile, backbone operators are moving toward extracting fees from one another and from internet service providers for use of their networks.

In a parallel move that may herald "metered" internet use, Sprint, which *operates a US backbone, is* planning to charge internet subscribers according to how *much bandwidth they use.*

The effect of putting internet economics on a commercial basis may be higher user costs. Yet commercialisation is ultimately in the best interests of users.

Until the internet makes good business sense to telephone companies, they are unlikely to invest to expand capacity and *overcome internet traffic* bottlenecks. Today, as internet users, we get what what we pay for – slow access and unreliable service.

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A case in point: AT&T's *move to acquire* TCI, *one of* the largest TV cable services in the US, is great news for internet users, but not for the obvious reasons. Certainly, the takeover boosts the prospects of high speed internet access to US homes, via cable hook-ups. AT&T's deep pockets may accelerate TCI's *efforts to* upgrade its networks to provide "interactive" services. However, the broader significance of the deal is that it could shake up the US telephone industry and push regional phone companies *to upgrade their* networks. Most internet traffic rides on the networks of telephone companies, so progress in providing faster internet access is dependent on the economics and the regulatory environment of the old voice telephone networks.

To the extent that AT&T's link with TCI upsets the status quo in telephony by bringing new competition to "local" telephone services in the US, internet users stand *to gain as local phone* companies respond by moving faster to create high speed data services.

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It is a bad season for bugs – in the garden and in the computer industry. The *crawly variety* seem to be proliferating here in the San Francisco area, following *extended* El Nino *rains*. The climate also seems to have affected the high tech world, where the latest bug *comes* in Intel's new Xeon microprocessor. Intel calls the fault in Xeon, a powerful chip designed for use in workstations and network servers, an "erratum" – a flaw that emerges only when the chip is tested in four-processor configurations for high performance servers. Such problems are not unusual, Intel points out. In the past, faults in the proprietary chips used by the world's computer manufacturers went largely unnoticed, except by the companies involved.

But Intel's chips are in the spotlight because they are used by most of the world's computer companies. The Xeon bug will be eradicated in "a few weeks at most" Intel says. In the meantime, it is marring an otherwise flawless move by the chipmaker to expand beyond *the desktop and local* network servers into the "big time" world of enterprise servers.

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Talking of gardens, what does yours look like from outer space? Well, you may not be able to pick out your seedbeds, but you might locate a large tree on a collection of aerial and satellite images available from Microsoft's new "terraserver" (www. *terraserver.microsoft.com*). Microsoft launched the website a week ago to demonstrate the scalability of its database software as it moves into the enterprise computing market. The company claimed that the repository of aerial images represented the biggest database *on the internet* with more than one terrabyte of data. Unfortunately for Microsoft, the effort backfired when the website was overwhelmed by visitors and turned millions away with error messages. Microsoft critics had a field day as it scrambled to get the website working. The problem was not in the software, Microsoft insisted. It was simply a matter of "capacity allocation". In other words, Microsoft had *not dedicated* enough power to the website. With several powerful computers added, Terraserver is *well worth a* visit.

louise@FT.com

هكذا من الأصل

JOHN W. HUNT
ADVISES

Fever pitch scores with net gains

Time spent watching the World Cup can stimulate positive feelings that benefit employees and employers

Dear Professor Hunt,
My employees have asked for time off to watch the World Cup when England is playing. I'm not a football addict myself, and I am amazed at how important it seems to be to some people, but I am not opposed to the idea of allowing them the time. They work hard and this is one way I can show my appreciation. What is your view?

Prof Hunt replies:
Acceding to your employees' request will certainly engender a positive spirit in the workplace, which may accrue any number of benefits.

As a manager who is not a football fan, it may help you to understand the fervour of your employees if you put the World Cup in context.

The need to have heroes, to belong to a winning band of worshippers, is a firmly established characteristic of human behaviour. On our own, our lives can feel burdened by limitations. Together, armed with a sense of belonging, we can have a clarity of purpose and our lives are given meaning.

Historically, it was religion that gave meaning to people's lives. It was the "big story" that gave everyone a place in the world, an explanation of how we came to be here and a sense of where we might be going. The majority no longer believe that story, but the need to identify remains.

Consequently, we look for smaller stories that may explain our lives to us – for example in the many self-help tomes in the bookshops. We create heroes out of film stars, football players, politicians and others as we search for identity. These do not compare in profundity to the big story, and indeed few survive, but we are able to see ourselves, if only briefly, in relation to them.

The strength of this need to identify varies widely in any society. For example, there are those whose lives revolve around their affiliation to a football team, their village or their work group. These are the real believers, the supporters, the men and women who find their place in the world by belonging to a larger social group.

They often invest large sums to buy symbols of this belonging – clothes, badges and accessories. In the absence of the identity and meaning provided by the big story, small stories are stretched to their limit: was it wise to drop Gazza? Should Beckham have been in the starting line-up?

In contrast, there are others, often introverts, who are quite happy to have few relationships and who are careful in their interactions with other people. They appear to be more self-sufficient and secure about their place in the world. They have little or no desire to relate in large groups, and and remain unaffected by the fits of Cup euphoria or depression expressed by the "real" supporters.

The need to identify also varies with social class and culture. Research shows that semi-skilled or unskilled people are the backbone of most groups of followers. Many of these people seek relationships more keenly than, say, higher achievers.

It is usual to find introverts at the top of organisational ladders. These are high achievers who find their way to the top with less reliance on the group. They are self-confident and have an identity they have created for themselves. They have no need to join others in order to "become someone".

One irony is that the high achievers with less need to belong are, in the main, managing people who have a strong desire to belong. This means companies are rarely able to satisfy either the introverts or the followers. Festivals such as the World Cup distract us from this paradox and add to all our lives, if for different reasons.

While the World Cup continues to generate emotional fever, the event is over within weeks. But its function in a society is profound, for it is through such events that people express their emotions and release pent-up feelings about the hassle of day-to-day living.

One consequence of this shift in people's need for identity has been the change in the role of managers. As people's search for answers becomes concentrated on smaller stories, employers find themselves in the role of vicar or care worker concerned for the emotional and financial needs of their employees. This is not too surprising when you consider that work is where most employees spend a large chunk of their time. Not even the traditional religions require eight hours a day of contribution from their flock.

It is not surprising to see companies becoming rather like religious communities or families, with all the attendant rites, rituals and ceremonies traditionally associated with older institutions. It is inevitable that some followers will question the ethics of this process. The kinds of activities that are acceptable as part of someone's religious expression may not be acceptable in the name of Mammon. At what stage do the rites and rituals become manipulation? Is the company song a step too far?

Whatever our private views, the World Cup will provide numerous examples of the importance of identification, of belonging.

The need to identify is not a new phenomenon. The challenge for the modern manager is to meet in some way his employees' expectations, and to harness the positive feelings that these can stimulate for the benefit of individuals and company alike.

John W. Hunt is Professor of Organisational Behaviour at London Business School and a consultant to private and public sector clients. This column appears fortnightly.

Workers' playtime: Mexican fans in a restaurant in California AP

HEALTH OSTEOPOROSIS

A sound advance for early warning of bone disease

Early and accurate detection of thinning density is the promise of a scanning system developed in Israel, writes **Judy Dempsey**

When Barry Wyshogrod rolled up his trouser leg to prepare for an ultrasound scan of his bone, he knew the results would be fast and precise.

Two minutes later, a graph flashed across the desktop screen showing how Mr Wyshogrod's bone quality compared with other males of his age, ethnic background and height.

This method for detecting osteoporosis, a debilitating bone-thinning disease that affects 200m people worldwide, particularly post-menopausal women, was developed by Myriad Ultrasound, a small company set up in 1991 in the Weizmann Science Park in Rehovot, close to Tel Aviv.

The system, SoundScan, uses standard ultrasound gel applied to the flesh around the bone. It is small, mobile, uses no ionising radiation and has a built-in self-diagnostics program. Analysts believe its market is primary care clinics in the US, which are starting to attract patients, rather than hospitals – many of which use large X-ray systems.

Above all, it is precise. "This is what makes SoundScan unique," says Alex Rapoport, president and chief executive officer of Myriad Ultrasound. "We measure bone only. We ignore overlapping tissue." This allows bone loss of as little as 0.37 per cent to be identified.

The aim of the system, first marketed in some European countries in 1994 and approved by the US Food and Drug Administration last month, was to detect of osteoporosis early.

It is estimated that humans lose about 30 per cent of their bone during a lifetime. But the rate of loss is as high as 5 per cent a year for women during the menopause, which explains why they are more vulnerable to fractures as they age. Until recently, neither diagnostics nor treatment were available.

Mr Wyshogrod, Myriad's vice-president for strategy and regulatory affairs, says SoundScan tracks sound measurements along the tibia, providing an index of bone strength as stronger bone has higher velocities.

'Once diagnosed, measures can be taken to reduce the risk of future fractures'

The raw data are analysed to produce a single representative speed of sound (SOS) value. What comes up on the desktop screen is a comparison of the patient's SOS with young adult norms and with age-matched norms.

"The result is that SoundScan provides a measure of skeletal fragility. Once diagnosed, measures can be taken to reduce the risk of future fractures," says Mr Wyshogrod.

With pharmaceutical companies such as Merck now providing treatment for osteoporosis, specialists believe the chances for early detection and therapy have been enhanced.

One of those specialists is Beat Dubs, head of the sonographic institute at Bethanien hospital in Zurich, Switzerland. He has been using Myriad's system since 1994. "The point about SoundScan is that it can detect osteoporosis at an early stage," says Mr Dubs, who treats some 3,500 patients. "The advantage is that it can measure real bone velocity while ignoring or eliminating soft tissue, so it is much more precise."

He adds that SoundScan has other applications too. It can be used to monitor loss or strength of bone in athletes and others in sport.

The response to SoundScan in Europe has been mixed. One reason is that not all treatment for osteoporosis is reimbursed by the national health systems. Myriad's equipment – there are two models – costs \$25,000 (£15,200) and \$40,000 in Europe. Moreover, primary care in Europe is less advanced than in the US.

With FDA approval under its belt, Myriad is setting its sights on the US market. According to UBS Global Research, more than 26m people in the US are affected by osteoporosis, of whom approximately 80 per cent are women. BancAmerica Robertson Stephens reckons the market is worth \$2bn.

Myriad, owned by a group of investors who have put up capital of \$9m, is searching for a strategic partner to break into the US market. "That is our next step. We cannot go it alone," says Mr Rapoport.

The British Queen Mother's emergency hip operation this year led many women of similar age to have checks Popperfoto/Reuters

WORLD CUP

ENGLAND COACH V THE MEDIA A GRUDGE MATCH LIKELY TO BOIL OVER

Poison pens are poised for Hoddle

Patrick Harverson explains the mutual dislike between the coach and football reporters

Facing the press: Glenn Hoddle is regarded as stubborn, secretive, obstructive, pious and too clever by half by many British reporters AP

It may not be cause to give *him sleepless nights*, but among the country's football press Glenn Hoddle is without doubt the most unpopular England coach in recent memory.

Of his immediate predecessors, Terry Venables, Bobby Robson and even the much-ridiculed Graham Taylor were generally liked by the nation's *sports* reporters.

That does not mean they were given a free ride by the *media – anything* but. Robson's tactical chopping and changing, Taylor's erratic selection policies and tactical naivety and Venables' off-the-pitch business dealings all came in for fierce press criticism during their reigns.

Yet at least Hoddle's predecessors fitted the media's idea of what an England coach should be like. They were recipients of a long, *hard schooling in the domes*tic club game. They were willing to treat the members of the press as equals, or at least disguise any contempt they may have felt for the profession of journalism. And above all, each was seen as "one of the lads", steeped in English football culture. They and the press spoke *the same language*.

Hoddle, however, is a different kind of England coach. It would be fair to say that most reporters do not respect, admire or even like him. Some may even loathe him. Hoddle's successes with the national team so far in qualifying for the World Cup finals ahead of Italy and reaching the second stage of France 98 (last night's game against Argentina started too late for this edition), have failed to impress. He *would need to win the tour*nament to earn the media's approval, and even then it would probably be grudgingly awarded.

This antipathy is rooted in a number of factors. In the eyes of the football press, Hoddle is – in no particular order – too stubborn, secretive, obstructive, pious and *clever by half for their lik*ing. They also do not understand his religious beliefs, nor his faith in the power of alternative forms of healing, which has led some reporters to question his sanity.

Relationships with Hoddle are not helped by his unwillingness to curry favour with anyone in the media. He maintains a cool demeanour when the press is about, even if it is with old footballing friends. One former England star who played *with him complains that* Hoddle even keeps his guard up when the two are discussing football off air. Garth Crooks, the former Tottenham striker who works for BBC Television, said recently: "It takes about half an hour before he treats me like an old team-mate."

The press is also unnerved *by Hoddle's self-confidence*, which is armour-plated. "He is very self-willed," says Pat*rick Barclay, football writer* at The Sunday Telegraph, "and *there is this spiritual* side that seems to make him think that everything he does is driven by a greater power which makes him right." Having been one of Hoddle's biggest early fans, Barclay admits to feeling disillusioned with him.

In a normal world, none of this would matter much. But *with the World Cup in full* swing, the hostile attitude the England manager and the media have adopted towards each other prevents fans from learning what is going on with their national team. The press needles Hoddle about his refusal to explain why David Beckham has been dropped from the *team, and Hoddle* needles them back. In the process, no one is any the wiser as to why *it* happened.

In this respect, it is *Hoddle's* secretive nature, his lack of candour, and his occasional use of outright deceit, that most rankles with the press. Reporters believe the coach has fallen into the habit of misleading them about team line-ups, tactics and injuries in an effort to confuse opponents.

They call it being "Hod*winked", and the most cele*brated occasion was before England's qualifying decider against *Italy in Rome last* October, when both Beckham and Gareth Southgate appeared to fake injuries. The press duly reported the problems and wrote about how England would overcome their absence. When the *two* players started the game in a perfectly fit state, the reporters were left *looking stupid*.

One writer says of Hoddle's penchant for disinformation: "I think he's taken it too far. There comes a stage where no one believes what you say anymore. This is not how things are done in the profession. There is a difference *between lies, and obfusca*tion and omission."

Hoddle, no doubt, regards his tactics as right because they are designed to help England win. The press has little choice but to accept it, but believes the England coach will only get away with the deception if the team remain successful. As one reporter puts it: "He's looking out for himself, and after what happened to his *predecessors* you can't blame him really. It's all about Hoddle trying to win, which is fine as long as he's winning."

Ultimately, the England coach possesses the strength of character not to care about the media's opinion of him. He knows that if the results go his way, he is impregnable. But the knives have been sharpened in case they do not. As Terry Ven*ables recently said about* coaching the national team: "To have the final word when everyone in the country wants to pick the team ... that is the most stimulating part of the job."

Unfortunately for Hoddle, the football reporters who find his manner and methods so unpalatable, will want to have the final word. Short of winning the World Cup, he has no way of stopping them.

TACTICS MIDFIELD MAESTROS ON THE DEFENSIVE

Return of the big centre forward via route one

Peter Aspden searches in vain for any tactical innovation at the tournament, and finds only the resurgence of the tall and powerful striker

There was a time when football tactics really mattered. In one of many, typically pretentious, screeds to have appeared in France during the past three weeks, *Les Intellectuels, Le Peuple et Le Ballon Rond* recounts the decline of the magazine Le Miroir du Football in the 1970s.

Its crime? To have championed too vigorously the beautiful ver*sion of the game invented by the* Hungarian side of the 1950s, and dismantled after the Soviet invasion of 1956. *Le Miroir* du Football was sponsored by the French Communist party, which found such revisionism unpalatable. The magazine was suppressed.

One searches in vain for such political nuance in today's game. It is hard enough to find any coher*ent tactical threads in the sides* that have contested this World Cup, never mind any that could *spark social* upheaval.

Norway's blanket defence, behaving throughout each game as if they were 1-0 up with two minutes to go, might have caused world revolution if they had progressed beyond the second round. But last Saturday Egil Olsen's ugly side *were eliminated by Italy in a* match of monumental torpitude.

So what are the tactical innova*tions of France 98?*

The most significant one is not so much an innovation as a piece of unwelcome nostalgia: the return of the big centre forward. One expects this largely discredited species to appear whenever England *are involved: and* Alan Shearer is a better example than most of his predecessors.

*No surprise either to see Ger*many – an ageing, fading, stuttering Germany – relying on their excellent forward Oliver Bierhoff to haul them through the competition. Bierhoff is a classic example of the updated big centre forward. He is tall and strong, but possesses *good touch, reads the game* well and has a wonderful spring in his jump, climbing early and high like the best basketball players.

Coaches are packing their midfield with defensive players to stop the other team playing

To see him lining up against the tiny Mexican goalkeeper Jorge Campos in Germany's 2-1 second-round victory was to be overcome by pathos. Campos had an excel*lent game*; but sure enough, he was beaten with minutes to go by a Bierhoff header of such venom that *he could only slump drunkenly* against his own post.

But it goes much further than that. Norway's Tore Andre Flo gave a marvellous exhibition of strong-running, big centre forward play, especially when he terrorised Brazil's defence in the last 10 minutes of his side's improbable victory in Marseilles.

The Italians became obsessed with how to handle Flo during *their second-round encounter*, not least because his first name sounds like the Italian word for "tower". But once *the game started*, they remembered why big centre forwards became extinct in sophisticated football circles. Flo did next to nothing.

But then the Italians had found a BCF of their own; Christian Vieri settled the game with a head-down, no-nonsense *charge of primeval* simplicity. Never mind the preening and pirouetting of their Baggios and *Del Pieros*. This was undisguised, route-one football.

Argentina, too, have supplemented their traditional Latin flair with the hefty presence of Gabriel Batistuta; France have looked to David Trezeguet to solve their goal-scoring problems. And as these big *men have prospered, the great* playmakers, the number 10s, have withered.

Hristo Stoichkov, Gheorghe Hagi and Carlos Valderrama have been playing from memory. France are still a much better side with than without Zinedine Zidane. But he has missed their last two games after stamping on an opponent in a moment of magnificent petulance. Roberto Baggio and Alessandro Del Piero are starring in their own torrid soap opera.

This has not happened by accident. Coaches have become obsessed with packing their midfields with defensive players to stop the other team playing. There is simply no room through the middle. Spoiling players – Paul Ince, Edgar Davids, Didier Deschamps, Cesar Sampaio – have starred, in some cases scoring important goals of *their own to boot. Why risk the* caprices of the moody creative genius when such reliable workhorses are at hand?

To find room, teams must work the flanks – highlighting the other main tactical trend of the tournament: the importance of wing-backs. The two most impressive attacking sides of the early phases, Brazil and France, rely enormously *on their speedy wide men: Cafu* and Roberto Carlos, Lilian Thuram and Bixente Lizarazu. Get the ball wide, cross and rely on a big man to put it in.

Not a very beautiful game. Defensive discipline has been paramount, counting *far* more than attacking flair. And to those who object to the accusations of naivety *that are routinely aimed at African* teams, here is the Nigerian midfielder Sunday Oliseh after his side's defeat against Denmark: "We were playing 4-1-5, and that couldn't go on forever. I couldn't chase after every ball on my own."

The final games of France 98 could yet see a moment of inspiration decide the title: from Del Piero, if he stops feeling sorry for *himself; from Dennis Bergkamp*, who finds three or four remarkable touches in every game; from the cunning Laudrup brothers; or that man Ronaldo, who is quite big, and plays centre forward. And there all similarities end.

Towering above: Oliver Bierhoff demonstrates the spring in his jump AP

FRANCE 98 DIGEST

ROMANIA 0 CROATIA 1

Romania produce corked display in wine country

In the heart of wine country Croatia triumphed over Romania in a second-round tie of disappointingly poor vintage yesterday. Like a bad bottle of red, this game should have been sent back. Croatia, *however*, were untroubled by matters of taste, and were happy to take the win in Bordeaux. *In the quarter-finals* the World Cup debutants will meet Germany, their conquerors in the 1996 European Championship. The opening chance of a disjointed *first half* fell to Davor Suker (above), the Real Madrid striker, whose shot at the near post was well blocked by the Croatian goalkeeper Bogdan Stelea in the sixth minute. Moments later Stelea was tested again, *this time* by a snap volley from the sprightly Goran Vlaovic. The shaven-headed Romanian keeper was having a busy start to the match, and soon after he acrobatically beat away a close-range shot from Aljosa Asanovic, who had been freed by the lively Suker.

Romania did not lack possession, but the creative talents of veteran playmaker Gheorghe Hagi and his young foil Adrian Ilie were easily stifled in midfield, where Croatian skipper Zvonimir Boban marshalled his forces well. So well, in fact, that it was not until the 36th minute that Drazen Ladic in the Croatia goal had anything to do. Gabriel Popescu lofted a neat ball to Ilie *down the right*, but his tentative stab was easily saved by Ladic, whose only challenge until then had been not dozing off in the warm sunshine.

The goal that never looked like coming arrived seconds before the break. Gabriel Popescu was adjudged, harshly, to have pulled down Asanovic in the penalty area, and Suker converted from the spot at the second attempt, after his first strike was disallowed for encroachment into the area.

The second half saw Romania display greater purpose, but Croatia remained the more dangerous side. Suker nearly extended their lead when he almost bundled in Mario Stanic's cross, but again Stelea saved well. With an hour gone the Romanians were becoming desperate. They decided to take off Hagi, who had made little impression, and fellow midfielder Gabriel Popescu *and bring on* two forwards – *Gheorghe* Craioveanu and Radu Niculescu.

The change had little effect and it was Croatia who should have scored just past the hour when Suker broke free on the right only to hit his shot weakly into Stelea's legs. From then on the game gently expired in the afternoon heat, and only the profligacy of substitute Petar Krpan and the tireless Boban prevented Croatia from putting a woeful Romanian side to the sword at the death. **Patrick Harverson**

POLITICS

Soccer diplomacy in play

Nearly three decades after "ping-pong diplomacy" ushered in the new era in Sino-US relations, US President Bill Clinton has used his visit to China to suggest that France 98 might play a *similar* role in thawing the animosity between the US and Iran.

"The World Cup is a great way of bringing people together," Clinton said on radio yesterday in Shanghai. "You know, the United States has been estranged from Iran for a long time, *but* we had this great soccer game and they beat us fair and square – it was heartbreaking for Americans, but they won a great, fascinating soccer match and they eliminated us from the World Cup," Clinton said.

Asked if this meant that the US might be on the verge of "soccer diplomacy" with Iran that would echo the Sino-US ping-pong diplomacy of the early 1970s, he replied: "I think it could be possible." After decades of antagonistic isolation, China's Communist leadership invited the US table tennis team to visit China in 1971, paving the way for President Richard Nixon's visit *the following year* and the eventual resumption of diplomatic ties.

Before the World Cup clash between Iran and the US last week, Clinton said he hoped the "match can be another step forward to ending the estrangement between our nations".

Yesterday he offered a gracious summary of the game that the US lost 2-1. "I think Americans were riveted by the soccer game and they were impressed because we were supposed to win the game and we had lots of chances and our players played very well ... but the Iranians had two fast breaks and they played with such passion and they had those two chances *and they capitalised* on both of them," he said.

The diplomatic content of Clinton's World Cup commentary was, arguably, more daring than his tip for the tournament. "I'm not an expert on soccer," he confessed, "but I think the Brazilians are always hard to beat." **James Harding**

NUMBERS SO FAR

Goals total	145	Sendings off	16
Bookings	211	Converted penalties	14
Leading goalscorer		*Christian Vieri (Italy)*	5

For latest World Cup news www.FT.com/worldcup98

TELEVISION IN RUSSIA

Sex, talk, and allusion

Chrystia Freeland finds the trendy new breed of chat shows remarkably liberated

For all its official mythology about liberating Russian women from the bourgeois chains that shackled their capitalist sisters, the Soviet Union was a female nightmare. Granted the right – indeed the obligation – of working outside the home, Soviet women were still expected to be old-fashioned hausfrau after a day at the office or on the factory floor, doing a second shift shopping, cooking and cleaning.

Superficially, the new Russia does not seem a lot better. Women still do double duty at work and then at home, and now they have the added burden of being sex goddesses in both places. Newspaper advertisements for secretaries openly seek "girls without complexes" – codes for ladies willing to bed their bosses. And most Russian women seem bound by a laborious dress code, which requires teetering stilettos, short skirts and carefully applied *maquillage* at all times.

But, at least on the airwaves, the Russian sisters are starting to speak out. Some of the country's most popular new television programmes are talk shows hosted by assertive young women which, for perhaps the first time, offer the nation's feminine half a collective, public forum.

The star of the lot is *I Myself (Ya Sama)*. Explicitly targetted at a female audience – in the original Russian the "I" of the title is grammatically identified as female – *Ya Sama* focuses on the traditional womanly subjects of love and family.

Hosted by Yulia Mishova, an ebullient, twentysomething blonde, in many ways *Ya Sama* reflects a world of gender relations which vanished in the west together with the 1960s and the twin feminist and sexual revolutions. The set is a bright pastiche of cheerful household objects, the show's title is written in lipstick in the opening credits and the enthusiastic ladies in the audience wear pretty suits in pinks and yellows.

The intellectual level of this Russian version of Oprah Winfrey should make any western viewer blush. Romantic illusions were learned not from Mills and Boon but from Tolstoy

Most tellingly of all, *Ya Sama* practices gender apartheid, herding a token group of male audience members into a separate corner, where the feminine shades of the studio give way to dark masculine colours and household appliances are replaced by a manly collage of newspapers.

Each week, a "heroine" visits *Ya Sama* and tells a personal story which illustrates the theme of the programme. One of the best recent shows featured Yulia Georgievna, a laughing fiftyish woman invited as an illustration of the subject, "Enslaved by romantic ideals." In response to Mishova's sympathetic but probing questioning, Yulia Georgievna described how she had loved and left three husbands – and was now with a fourth – all because of her insatiable quest for true romance.

It seems to be exactly the sort of topic to suit the sexist, cotton-candy decor of the show, but as Yulia Georgievna's story unfolded, and as the audience was drawn into discussion, some of the complexities of *Ya Sama*, and of the role of women in Russia more generally, emerged.

For one thing, the intellectual level of this Russian version of Oprah Winfrey should make any western viewer blush. *Ya Sama* is a show for low-brows – my intellectual Russian friends were horrified when I asked if they ever watched – but all the same, Yulia Georgievna's romantic illusions were learned not from Mills and Boon but from Tolstoy.

Both she and the audience unselfconsciously peppered their comments with quotations ranging from Gogol to Picasso. It may seem perverse to say anything positive about the repressive Soviet regime but, listening to these cultured ordinary folk it was hard to resist the thought that the iron curtain against western pop culture was not entirely a bad thing.

Another surprise is that husband-hopping Yulia Georgievna's choices were condoned, even applauded, by both the men and women in the studio audience. One middle-aged lady, who said she herself had only been married once, told Yulia Georgievna "I envy you." Another went even further, enthusing: "I am very proud that we still have such women in Moscow and in our country, with such a zest for life. Thank you very much."

Even most of the men seemed won over. One said he was surprised Yulia Georgievna "limited yourself just to four husbands, why not more?" Another, with what seemed like a smitten air, asked plaintively why Yulia Georgievna was only attracted to "great" men, and wondered why "you don't try an ordinary guy like me, but one with a talent for loving."

This admiration for a modern-day Anna Karenina, a woman who chooses passion over convention, is a far cry from the neo-Victorian return to "family values" which is coming back into vogue in the west. Indeed, sounding more like a 1960s flower child than a product of the world's most totalitarian regime, Yulia Georgievna said that when she went to a psychologist to try to stay together with husband number two for the sake of their child she was told – "Leave him. If you're not joyous yourself, you can never raise a joyous child."

An explicit discussion of sexuality steered by Elena Khanga in 'Pro Eto'

It is a revealing piece of advice and one which suggests that, for all their superficial adherence to traditional gender stereotypes and their recent experience of authoritarianism, when it comes to the heart the Russians may be more liberated than westerners.

A different sort of Russian inhibition enlivens the country's most controversial new talk show, *About That (Pro Eto)*, which bills itself as the nation's first talk show about sex.

Aired at 12.35am on Saturday nights, *Pro Eto* is a world away from the soothing, homey cadences of *Ya Sama*. Its edgy tone is set by Elena Khanga, whose maternal grandparents were Americans who moved to Russia in the 1930s to build Communism and whose father was a Tanzanian student at Moscow State University. He Tanzania's prime minister, but died young in a coup.

In impoverished post-Communist Russia the climate is distinctly racist, but *Pro Eto* makes a virtue of Elena's colour without making it into an issue. Trailers for the programme focus on Elena, with the tag "Eelena Khanga, the only television hostess who doesn't turn red".

Regular viewers realise the line is a double entendre – it refers not only to Elena's dark, unblushing skin tones, but also to the matter-of-fact, almost clinical tone she uses to steer the most explicit discussion of sexuality ever heard on Russian television.

This week, for example, the subject was oral sex, and Elena set the tone by offering precise definitions, with the poker-face of a woman discussing monetary policy, of fellatio and cunnilingus. Most of the audience members have never heard words like these uttered aloud in Russian and it is probably worth watching the show just to see Elena, decked out in a platinum blonde wig and sassy dresses, cut through generations of taboo with a few crisply pronounced syllables.

It took 45 minutes of chatter to produce a conclusion the more matronly audience of *Ya Sama* probably assumed before even turning on the television set: many Russian men are selfish (in bed and out) and most women would like them to change.

For all their differences in tone, *Pro Eto* has one thing in common with *Ya Sama*. Like the cosier, afternoon chat show, *Pro Eto* springs from a society in which high culture is taken for granted. The programme's title, for example, is borrowed from Dostoevsky, who uses the euphemism "pro eto" [about that] to refer to sex in *The Brothers Karamazov*. Ironically enough, one of the best things about Russia's new, trendy breed of talk shows may be the literate, Soviet-era culture whose demise they probably herald.

The renovated interior of the museum, which was one of 15 set up after the French revolution

THE MUSEE DES BEAUX-ARTS, LYONS

Jewel of the provinces

Renovation, restoration and a timely gift means that 'the little Louvre' lives up to its name, writes **Robert Graham**

Lyons justly deserves its reputation as the culinary capital of France. But there is more than food to feast on in this elegant city. The eight-year enlargement, restoration and reorganisation of the Musée des Beaux Arts, now virtually complete, has created a superb space to enjoy the finest museum complex in provincial France.

The museum – long-dubbed "the little Louvre" for the size and quality of its collection of antiquities, objets, paintings and sculpture – has been enhanced by an extraordinarily generous bequest from Jacqueline Delubac, the comedienne whose first husband was the French cultural icon, Sacha Guitry. Delubac was a native of Lyons; and by a stroke of luck she was wondering what to do with her modern art collection just when plans were being drawn up for the modernisation of the museum.

Originally she had contemplated leaving the best canvasses to the national modern art museum in Paris. However Philippe Durey, the curator of Lyons, persuaded her to choose the city of her birth where her collection – and that of her second husband the diamond merchant Myran Eknayan – would have a prominent showing instead of languishing less noticed in Paris. As a result, two large rooms were earmarked at the outset to house her 34 paintings and three bronzes.

"What a gift for an institution that knows full well even after being renovated, it will not find in the near future the financial means to buy such works! What a satisfaction to see the balance tilted for once towards the provinces!" observes Durey in an introduction to the catalogue of the legacy. Sadly Delubac died aged 90 last year before the rooms were inaugurated this spring.

The museum's benefactor, Jacqueline Delubac, was not afraid to collect 'difficult' subjects. She bought a bull-fight study by Bacon which she kept in her dining room

Her first acquisitions in the early 1940s reportedly came from cashing in her jewellery obtained in her divorce from Guitry. She had a good eye and liked to go to artists studios as well as galleries. Her show pieces were mainly of women or female figures bought in the 1950s and '60s – a 1937 Braque of a woman painting at an easel, a large Picasso of woman sitting on a beach, a Léger of two women and a bouquet and a rich Miró pastel. But she was not afraid of "difficult" subjects and bought one of Bacon's three studies for a bull-fight which she kept in her dining room, along with an angular female figure by Cuban artist Wilfredo Lam.

While Delubac went for the moderns, her second husband collected Impressionists. Thus the combined collection is wholly complementary, bringing important works by Degas, Manet, Monet and Renoir plus an unusual Saint Sebastian by Corot. They fill out Lyons' existing Impressionist and Modern collection to make it the most comprehensive outside of Paris. This is most fitting since it was the first French provincial museum to concentrate on the Impressionists – buying works by Manet, Monet, Renoir and Sisley as early as 1901-3. In 1913 it was brave enough to buy a Gaugin.

However, the museum is not rich merely in modern and Impressionist art. It was the most important of 15 provincial museum set up in 1801 in the wake of the French Revolution. The idea was to house all the regional works, confiscated from aristocrats or rounded-up from ecclesiastical property, in a major city centre to help educate the liberated populace.

In the case of Lyons, a large former convent was taken over and the government in Paris agreed to transfer 110 paintings from the state's collection, including looted works acquired by Napoleon in Italy. As a wealthy city with booming industry, this base was quickly expanded by acquisitions, branching into archaeology, objets and oriental ceramics. Indeed, so much was acquired or bequeathed that before the recent renovation, the collections were cluttered and difficult to see.

The renovation has made available a total of 70 rooms. The whole 17th century building complex has been redesigned internally, and the former convent church converted into a voluminous space to accommodate monumental paintings and sculpture. A new entry space has been created using the old chapter house, dominated by an impressive Perugino, and the refectory, which was found to have some exceptional 17th century Baroque frescoes by a little known Lyonnais artist, Pierre Louis Crétey.

Apart French masters, the Italians are represented by Titian, Tintoretto, Veronese, Pietro da Cortona and Guercino. There is also a strong representation of the Low Countries with Rubens, Jordaens and Van Dyck. Equally, the museum can boast the biggest provincial medals and medallion collection as well as an interesting display of furniture.

The extension and renovation was conceived at a time of flush culture ministry spending. Today the main worry of the curators is running costs (FFrs 23.8m last year). There is little money for acquisitions or exhibitions without turning to the private sector.

But even with these worries the museum will remain the jewel of French provincial museums. With Lyons in easy two-hour reach of Paris by fast train, it is worth considering a day trip from the capital – and there certainly won't be the crowds of the Louvre.

INTERNATIONAL

Arts Guide

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● La Gioconda: by Ponchielli. Revival conducted by Marcello Viotti in a staging by Filippo Sanjust; Jul 3
● Manon: by Massenet. New production conducted by Jiří Kout in a staging by Cesare Lievi. With sets by Margherita Palli and costumes by Luigi Perego; Jul 1

BIOT

EXHIBITION
Musée National Fernand Léger
Tel: 33-4-9291 5030
Fernand Léger: 1905-1930. Modified version of the major retrospective seen in Paris, Madrid and New York; to Sep 30

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
The Turn of the Screw: by Britten. New production conducted by Antonio Pappano in a staging by Keith Warner, with designs by Stéphane Lazaridis. Cast includes Susan Chilcott and Anthony Rolfe Johnson; Jul 2, 3

CLEVELAND

EXHIBITION
Cleveland Museum of Art
Tel: 1-216-421 7340
www.clemusart.com
Gifts of the Nile: Ancient Egyptian Faience. Display of ceramics, known as faience, a mixture worked by the Egyptians and regarded by them as magical. Brings together over 200 works, including statuettes of kings, gods, and animals, and inlaid boxes ranging over 5000 years. Includes works borrowed from public and private collections in the US and Europe; to Jul 5

EDINBURGH

EXHIBITION
National Gallery of Scotland
Tel: 44-131-624 6200
Effigies and Ecstasies: Roman Baroque Sculpture and Design in the Age of Bernini. The National Gallery's major festival exhibition for 1998 is a celebration of the outstanding artist of the Italian baroque, Gianlorenzo Bernini, on the fourth centenary of his birth. Bernini's chief rival in sculpture, Alessandro Algardi, also features prominently; to Sep 20

FLORENCE

OPERA
Teatro Comunale
Tel: 39-055-2 ..8
www.maggiofiorentino.com
La Bohème: by Puccini. Conducted by Semyon Bychkov in a staging by Jonathan Miller; Jul 1, 2, 3

GLIMMERGLASS

OPERA
Alice Busch Opera Theater, Cooperstown
Tel: 1-607-547 2255
● Falstaff: by Verdi. New production directed by Leon Major, with sets and costumes by John Conklin and lighting by Pat Collins. Baritone Stephen Powell sings the title role. The conductor is George Manahan; Jul 2, 5
● Tosca: by Puccini. New staging by the team responsible for last year's Madama Butterfly: director Marc Lamos, set designer Michael Yeargan, costume designer Constance Hoffman, lighting designer Robert Wierzel and conductor Stewart Robertson; Jul 3

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Cosi Fan Tutte: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Opie and Barbara Frittoli. With the London Philharmonic Orchestra; Jul 2
● Rodelinda: by Handel. New production directed by Jean-Marie Villégier, with sets by Nicolas de Lajartre and Pascale Cazales. With the Orchestra of the Age of Enlightenment conducted by William Christie; Jul 3, 5

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: programme of works by John T Williams, conducted by the composer; Jul 1, 2

Wigmore Hall
Tel: 44-171-935 2141
Angelika Kirschschlager: recital by the mezzo soprano of works by Beethoven, Schubert, Schumann, Brahms and Wolf. Accompanied by Helmut Deutsch; Jul 1

EXHIBITION
British Museum
Tel: 44-171-636 1555
Maori: display of more than 500 objects relating to the Maori people of New Zealand, including material collected by Captain Cook on his voyages between 1768 and 1780. Ranges from giant wood carvings to canoes, tools and woven cloaks and ornaments; to Nov 1

Tate Gallery
Tel: 44-171-887 8000
Patrick Heron: b. 1920, Heron is one of the leading figures of 20th century British art. He led the development of abstract art in Britain with his stripe paintings produced in the 1950s. This display includes around 80 paintings, from the 1930s to the present, and is curated by David Sylvester; to Sep 6

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Doctor Ox's Experiment: new opera by Gavin Bryars, with a libretto by Blake Morrison, after Jules Verne. The production is directed by Atom Egoyan, with sets by Michael Levine and costumes by Sandy Powell. Cast includes Bonaventura Bottone; Jul 3
● Falstaff: by Verdi. Revival of Matthew Warchus's production, conducted by Paul Daniel. Donald Maxwell sings the title role; Jul 2, 4

THEATRE
Barbican Theatre
Tel: 44-171-638 8891
Maly Drama Theatre of St. Petersburg: The Possessed, by Fyodor Dostoyevsky, directed by Lev Dodin. 3 part adaptation previously seen at the Edinburgh Festival; 1 July Part 2, 2 July Part 3; 4 & 5 July all day

The Pit, Barbican Centre
Tel: 44-171-638 8891
The Gift: written and performed by Angela de Castro; to Jul 4

NEW YORK

EXHIBITION
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Aleksander Rodchenko (1891-1956): first major US retrospective of the most important Russian artist of the period following the 1917 revolution. A founder and leading theorist of Constructivism, Rodchenko abandoned the traditional mediums of painting and sculpture in favour of experimental forms, photocollage and graphic design. The show presents 300 works created between 1915 and 1939; to Oct 6

NEWCASTLE

OPERA
Theatre Royal
Tel: 44-191-232 2061
● Opera North: Joan of Arc, by Verdi. New production by Philip Prowse, conducted by Richard Farnes with a cast headed by Susannah Glanville and Arthur Davies; Jul 1
● Opera North: Eugene Onegin, by Tchaikovsky. New production by Dalia Ibelhauptaite, conducted by Steven Sloane. The cast is led by Alwyn Mellor and Peter Savidge; Jul 3

PRAGUE

EXHIBITION
Galerie Rudolfinum
Cindy Sherman: retrospective tracing the New York-based artist's development from the 1970s to the present. Consisting of 156 works, this touring show presents selections from each of her major series; to Aug 23

SAN FRANCISCO

CONCERT
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony and Chorus: Paul McCartney's Standing Stone, conducted by Lawrence Foster; Jul 2

SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
www.santafeopera.org
● Madama Butterfly: by Puccini. This revival will open the 42nd season at the newly renovated theatre. John Crosby conducts a production directed by John Copley; Jul 3
● The Magic Flute: by Mozart. New production by Jonathan Miller, with sets by Roni Toren and costumes by Judy Levin. Cast includes Sheri Greenawald; Jul 4

TV AND RADIO

● WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● CNN International
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● Business/Market Reports: 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

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COMMENT & ANALYSIS

LIONEL BARBER
EUROPEAN VIEWPOINT

Europe's time bomb

The tragedy of Kosovo is yet another sign of the European Union's impotence in its own backyard

The latest Serb offensive in Kosovo has pushed the southern Balkans to the brink of another war. The risk of a wave of refugees across Europe is rising; so is the danger of a conflict between the Serbs and the Albanian majority that draws in neighbouring powers.

The European Union responded this week by slapping a ban on flights by Yugoslav carriers to buttress an earlier arms embargo, and a ban on visas and new investment. Foreign ministers also threatened Slobodan Milosevic, the Yugoslav president, with, wait for it, 18 more diplomatic monitors.

They will shortly arrive in Belgrade. There they will join the queue of people waiting for Mr Milosevic's permission to enter Kosovo where Serb security forces are alleged to have engaged in random killing, ethnic cleansing and systematic brutality.

The EU's pinprick diplomacy looks wearily familiar, a re-run of its policy towards Bosnia, with the same naive faith in sanctions to force Mr Milosevic to see reason. Europe's leaders have known that Kosovo is a time bomb for nearly 10 years since the Serb strongman scrapped the province's autonomy; but they have turned a blind eye.

Yet there are differences with Bosnia. In the summer of 1991, Luxembourg's foreign minister spoke of the "hour of Europe". His words were intended as a clarion call for decisive European action. They became a catchword for the EU's impotence in its own backyard.

This time, the EU has taken a back seat from the start. Richard Holbrooke, the veteran US troubleshooter who brokered the Dayton accords which ended the war in Bosnia, has seized the lead – with mixed results.

First, the US pressed the EU to impose economic sanctions. Mr Holbrooke then persuaded the EU to hold off. He thought he could persuade Mr Milosevic to begin a real dialogue with Ibrahim Rugova, leader of the main Kosovo Albanian party. After one meeting, Serb security forces renewed their bombardment against civilians. The hard-headed Mr Holbrooke was taken for a ride.

Second, the US responded with threats of military action. The Europeans dutifully rattled their sabres. Nato conducted air exercises over neighbouring Macedonia and Albania. But Mr Milosevic once again called the western bluff. The Serb security forces continued their crackdown and more Albanian refugees streamed out of Kosovo.

For the Europeans, the advantage of dancing to the American tune is that so far there have been no serious transatlantic disputes over policy. In 1991, the Americans were livid about the German-led diplomatic recognition of Slovenia and Croatia which they correctly predicted would break up Tito's Yugoslavia and spread war into Bosnia.

There followed months of bitter transatlantic disputes over former Yugoslavia. The Europeans saw the conflict as a civil war between three different nationalities which should be contained within the borders of the old federation. A strong section of opinion in the US felt that the Bosnian Moslems had the right to be armed and to fight for self-determination.

Europeans and Americans have vowed to avoid the same mistakes. Hence the common line on Kosovo. The Albanian majority can have "enhanced autonomy" but on no account full independence. In a gesture towards Mr Milosevic, the EU has pledged to stop the flow of money and weapons to Kosovo armed groups and called on Mr Rugova to renounce violence and terrorism.

So far, so good. In practice, events on the grounds are outstripping the policy. The Kosovo Liberation Army (KLA), a radical rival to Mr Rugova, now holds between 35 and 40 per cent of territory, according to respective Russian and KLA estimates. Mr Holbrooke has already held contacts with the KLA. Other US diplomats say Mr Rugova may no longer have the power to deliver a settlement acceptable to the militants.

By contrast, Europeans like the cut of Mr Rugova. He wears a cravat not a bandanna. He speaks English and French. In Luxembourg this week, EU foreign ministers demanded that nothing be done to undercut Mr Rugova. He must remain the prime interlocutor for the international community.

The common transatlantic line is probably stronger on the questions of independence for Kosovo, if only because of its implications for the rest of the Balkan region.

Granting the Albanian majority independence would have repercussions for the stability of the Macedonian state, with its Albanian minority. Even the Greek and Macedonian governments – perennial rivals – have agreed on this point. Independence for Kosovo could also trigger claims for independence among unruly minorities further east in the former Soviet Union and Russia.

All of which brings us to the Russian dilemma. On the one hand, Moscow insists that it knows best how to deal with Mr Milosevic (a fellow Slav), and that any suggestion of more Nato-led military action in the Balkans is unacceptable. Russia's leadership – already fuming over Nato's enlargement to the Czech Republic, Hungary and Poland – has watched parts of former Yugoslavia turn into a kind of Nato protectorate. Kosovo is a line in the sand.

Yet Russia stands to lose more if the Kosovo conflict spreads. The Russian bluff can be called when – and if – the US and Europeans decide that Serb aggression must stop. The temptation, however, will be to pursue a policy of containment, restricting a Nato deployment to perimeter countries and allowing the KLA to fight it out with the Serbs. That makes sense in terms of avoiding a regional conflagration; but it opens the door to ethnic cleansing on a scale not seen since the Bosnian war and an even greater exodus of Albanian refugees.

Mr Milosevic has seen his dream of a Greater Serbia shrink progressively ever since he first interfered with Kosovo's status and unleashed Serbian nationalism. No wonder the Americans, Europeans and Russians are praying that he will see sense and order a ceasefire.

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Kosovo's victims: Europe's leaders have turned a blind eye

LETTERS TO THE EDITOR

Same view of the two Houses

From Mr William Wyndham.

Sir, I am grateful to Philip Stephens for reviewing my new book ("The end of the line for pedigree", June 27-28). I willingly take the blame for not making a complex subject simple enough for him to see that my views largely coincide with his own.

In particular, Mr Stephens suggests that I "missed" the need of fundamental reform to rebalance the relationship between Britain's two Houses at Westminster. But that is just what my book is about. What, however, it also attempts to show is how, practically, to achieve that balance – by a patient weighing-up of the best of earlier thinking on the subject. Reform should grow like a river – and consensus – from many tributaries and can only be prepared by mapping them.

William Wyndham,
Castlegate House,
Lewes BN7 1YT, UK

Common route should be sought for cross border equity flows

From Mr Adrian Cunningham.

Sir, In "Crossing equity borders" (June 29), Simon Davies highlights the fact that investors are finding cross-border equity investment hard to realise. This is true, but I would question his suggestion that it has been reasons of currency and convenience which have kept funds at home. If so, why have bonds and derivative products managed to transcend borders with such ease? Given the diverse, and thus restrictive, regulatory framework, which governs the life assurance and pensions industry across Europe, it is likely that the absence of a single market in these investment products is limiting cross-border flows.

French pension funds must hold a minimum of 50 per cent of their portfolios in EU government bonds. Germany is similarly restrictive, capping equity holdings at 36 per cent (30 per cent must be in EU markets and only 6 per cent outside the EU). Apart from limitations this puts on diversification into equities, firms seeking to compete in the life and pension industry on a pan-European basis are likely to find administrative costs prohibitive, slowing the establishment of a single market for investment products and restraining competition.

In an environment where the overhang of unfunded pension liabilities is of increasing concern, surely it is imperative to establish uniform investment guidelines? If this accelerates the move to cross-border capital flows, competitive pressure on domestic stock markets to reduce costs and introduce complementary trading platforms will follow.

Adrian Cunningham,
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Aftermath of a landing

From Mr David Lang.

Sir, I notice that there seems again to be a lot of discussion about whether or not the economy is heading for a hard or a soft landing. Can someone kindly explain exactly what this means? In what sense does the economy land? Can anyone predict the date when it is due to do so? Does anyone know when it has?

Further, I would be glad to know what happens to the economy when it has landed. Does it stay down for long? Is it put into some sort of hangar to keep it dry or is it left out to get wet? Presumably if it has had a hard landing it will have to stay grounded for longer while repairs are carried out.

What most intrigues me, however, is what happens to everything else once the economy has landed. If, as I suspect, things carry on much as before might it not be better to put the whole thing into mothballs and stop worrying?

David Lang,
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Dorchester,
Dorset DT1 1RT, UK

A firebrand seeking a moment's success

From Mr Rolf Joachim Siegen.

Sir, A political portrait of Oskar Lafontaine would remain necessarily incomplete without combining it, as you did, with a photo characterising him in his typical pose ("SPD left wing firebrand flies a Blairite banner", June 25). The body language reveals the fellow's talent as an agitator, fist swinging and spitting out slogans in the spirit of class struggle.

Is such a demagogic man qualified for a central position of leadership on Germany's way into the upcoming millennium? Give me a break! Mr Lafontaine is to be truly called a firebrand; however, a destructive one. His public appearance as a rabble-rouser fits well with the poverty of his arguments. He arbitrarily picks out any catch-phrases and disseminates them as supposed truths. Being such a character he plays upon the naivety of his audience. For a charlatan like him, merely a moment's success counts.

For instance, Mr Lafontaine's statement that the current economic situation in the US supports his political ideas is pure invention. To the contrary the exact opposite is true. According to the German financial paper Handelsblatt, Duesseldorf, the American chamber of commerce in Franfurt just rejected explicitly the tax plans of the Social Democrats.

Finally, Mr Lafontaine, in presenting the Social Democrats – under his guidance – as the appropriate alternative to Chancellor Kohl, can be easily defeated with his own arguments. As premier of the German state of Saarland nobody other than he personally is responsible for one of the most lamentable situations in Germany earmarked by high unemployment and a strong public deficit.

Rolf Joachim Siegen,
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Markets not depressed

From Mr Kenneth S. Mullard.

Sir, Many readers would like to know if your statisticians and analysts could show a correlation between the rise in sales of anti-depressants and sedatives in the US during the past year of 18 per cent and the rise in the US stock market indices over the same period ("Anti-depressant advertisements pep up US pharmacy sales", June 25).

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Old fox takes new bite

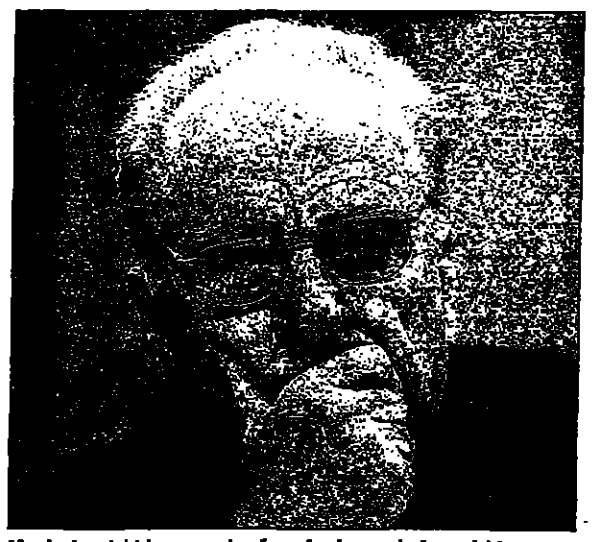
Rupert Murdoch's latest move, says **Christopher Parkes**, was characteristic: it was *unexpected, it breaks new ground, and it could well be risky*

The projected demerger of News Corporation's US entertainment assets shows how far Rupert Murdoch has gone in turning an Australian newspaper empire with profitable British assets into a global entertainment business based in America.

In the process, he has rewritten the rules of the US entertainment and television business by increasing the price of the most popular sporting events. Now, the question is whether the rules of US investing – in particular, the transparency US investors demand – will change him. Notorious for his involvement at every level of the business, he is often said to be the only man who really knows what is going on at News Corp.

That also means that, as with most of the manoeuvrings of the master of the unexpected, there is room for doubt and speculation. At 67, under pressure from his estranged wife to work less, Mr Murdoch could perhaps be trying to rearrange News Corp's assets the better for his heirs and successors to understand. On the other hand, since old dogs do not learn new tricks, Mr Murdoch might also be setting the company up for a fresh round of acquisitions, using high-value stock in the newly-created group to buy yet more assets in the world's biggest single entertainment market.

Certainly, stock markets seem in a mood to be generous. The cheer that greeted the proposed deal in New York on Monday continued in the group's Australian homeland yesterday. After a 12 per cent surge on Wall Street, News Corp shares rose 8 per cent in Sydney as investors concluded that Mr Murdoch, chairman and chief executive, had changed tack.



Murdoch: might be preparing for a fresh round of acquisitions

From building up the group, they said, he had turned to building value. He had bowed at last to investors' appeals for greater transparency. He had recognised that the mis-match between mature publishing businesses and fast-growing mass media was preventing the group from realising its stock market potential.

By combining its US interests in television, film and sports in a new company, Fox Group, and offering 20 per cent to the public, News Corp would extract a "pure-play" all-American entertainment company from its jumble of international assets.

It was, stock market analysts claimed, one of the most shareholder-friendly manoeuvres they could remember. By reducing the corporation's complexity and separating out Fox, an entity more directly comparable with competitors such as Walt Disney, Time Warner and Viacom, the shift would encourage investors to revalue the stock.

Although News Corp has shared in the past year's run-up of entertainment stocks, it has trailed the pack because it has been valued more as a media conglomerate than its rivals.

On completion of the transaction, expected by the end of the year, News Corporation will be left with gross receipts estimated at anything from $3bn to $4bn. According to the statement issued on Monday, the proceeds will be used for general corporate purposes such as paying down debt and funding share repurchases.

The shake-out has its risks, as is common with Murdoch manoeuvres. The transparency that comes with the separation of prime assets that contribute more than half of group revenues may cast an unflattering light on the rest of News Corp, which includes businesses such as the loss-making StarTV in Asia.

But such assets are a characteristic feature of Mr Murdoch's business. Taking chances has been as common in News Corp's strategy as as shareholder-friendliness has been rare.

Notorious for his involvement at every level, Murdoch is said to be the only man who really knows what is going on at News Corp

Earlier this decade, the $3bn purchase of Walter Annenberg's private publishing business, including TV Guide and Seventeen, almost crippled the group as debt drove Mr Murdoch to the brink. But the last reminders of that debacle were consigned to history earlier this month when News Corp garnered $2bn in cash and stock as TV Guide was folded into an on-screen programme listing service.

As a rule, the big risks taken in the US have paid off. Using acquisitions as a base, News Corp has typically thrown rivals off-guard and gained ground in the process by attacking the economic assumptions underpinning his target industries.

Just as he used the Times as a weapon in the price wars that transformed the economics of the so-called quality broadsheet press in Britain, Mr Murdoch has used similar means to bludgeon his way to the forefront of the US entertainment media.

His Fox Network ranked as a feeble also-ran in US television broadcasting until 1993 when News Corp paid double the going rate for American football broadcasting rights, which had hitherto been the preserve of CBS. The manoeuvre, shocking at the time, robbed CBS of its leading place in the rankings – a blow from which it has yet to recover. Fox sprang to instant prominence as the network favoured by the young male viewers who make up the audiences most sought-after by mass market advertisers.

Echoes of that coup were heard again earlier this year, when the cost of football television rights was again doubled in one of the fiercest bidding battles seen. Mr Murdoch was again involved.

Now it is News Corp's film studio, 20th Century Fox, which threatens to wreak havoc in the economics of the movie business with the extraordinary records being set by Titanic. With gross revenues approaching $3bn – and the home video yet to come – the film mocked for its overblown $250m budget has set new standards that have sent rivals reeling.

Although the studios declare Titanic an aberration and insist they are grinding down costs, Walt Disney is believed already to have spent $200m producing and promoting Armageddon, which opens in the US tonight.

News Corp's investors should have reason to be happy about the results Fox has already generated, and with the corporate transformation ahead, but that is no reason to assume that the old fox has changed his attitude towards the hen house.

FINANCIAL TIMES

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Wednesday July 1 1998

The year of Asian crisis

The Thai baht devalued a year ago tomorrow. Just as a small stone can trigger a rockslide, the baht's fall started a collapse in emerging markets. It is the economies first caught in the slide that have suffered the biggest economic declines. The urgent question is how to secure a swift reversal.

So far that is not happening. The latest consensus says Indonesian gross domestic product will shrink 13 per cent this year, Thailand's 6 per cent, South Korea's 4 per cent and Malaysia's 2 per cent. The forecast for next year is for further sluggishness. The outcome will probably be worse. Behind these recessions are the cessation of private finance from abroad and vicious debt deflation at home.

Nothing could be done about the first once the creditors' rush for the door had begun. Confidence takes time to restore. But the resultant swing in net private capital flows to Thailand, South Korea, Malaysia, Indonesia and the Philippines of $109bn (£65bn) between 1996 and 1997 – 11 per cent of pre-crisis aggregate GDP – was devastating. Fortunately, this adjustment is almost complete. According to the Washington-based Institute for International Finance, the current accounts of these countries will shift from a deficit of $55bn in 1996 to a surplus of $31bn this year.

Even so, swift recovery cannot be expected. The combination of over-depreciated currencies with high indebtedness, much of it in foreign currency, has destroyed the solvency of large parts of the private sector. This dire situation is set to get worse, for two reasons: first, to take just the example of Thailand, real GDP next year will be some 25 per cent below what it would have been if pre-crisis growth had continued; second, real interest rates remain strongly positive.

Three-part answer

What then is to be done? The answer has three parts: recognise losses; reorganise debt; and expand economies.

Even with the luxury of being able to run a policy of very cheap money, Japan has been unable to sweep losses under the carpet forever. With their need to avoid further currency collapse, the afflicted Asian countries are in a worse position. They must pursue swift debt restructuring, instead. The urgent need is a legal framework for comprehensive reorganisation of the debt of insolvent companies.

The approach should be: accept the destruction of existing equity; convert debt into equity to make potentially profitable companies viable; close companies unable to cover their operating costs. Both domestic and foreign lenders should be required to participate in debt-equity swaps. The new owners can then do what they wish with their companies.

IMF support needed

A swift government-organised financial restructuring will not happen without strong support from the International Monetary Fund and governments of leading industrial countries. Can it happen without public money as well? The answer is: yes, but only up to a point.

A bad reason for injecting public money is to save politically influential owners of bankrupt companies. Naturally, such powerful people will do anything to avoid losing their wealth. But the use of public money to protect them will set a dreadful precedent.

The better reason for use of public money is to save the core banking system. Since the governments have already guaranteed the liabilities of their banks, they will need to recapitalise them anyway. But the existing equity of insolvent institutions should first be wiped out. Public equity sufficient to make banks sound should then be injected, allowing them to write off bad assets or convert them into equity.

The cost of what amounts to nationalisation should be met by the issuance of government bonds, which east Asian countries are fortunately in a good position to do. When economies have started to recover, the equity of the rescued banks should be sold.

With such a rapid economy-wide conversion of debt into equity, governments will halt the debt deflation. They should then pursue wider economic reform and the loosest macro-economic policies consistent with avoiding another collapse of the exchange rate in order to kick-start their economies.

The combination of austerity with a failure to recognise losses is virtually a guarantee of continued stagnation. The alternative is debt restructuring and economic expansion. The solution lies largely with the governments of afflicted countries. They must be encouraged to act decisively now.

Lomé crossroads

Every five years the European Union has rolled over its Lomé aid and trade convention with 71 African, Caribbean and Pacific (ACP) countries with only minor tinkering. But as the EU gears up to renegotiate Lomé again, it is clear that change may at last be on the way, particularly in the convention's trade provisions.

EU ministers this week endorsed the Brussels Commission's proposal of replacing existing, and ineffective, trade preferences with free trade arrangements with each of the ACP areas in different continents. This would not happen immediately, but after the next renewal of Lomé expires in 2005.

To help them adapt, the ACP countries would get 5-10 more years than Europe to abolish their tariffs. EU ministers also pledged that those ACP states which did not want such free trade would get "equivalent treatment" to their current situation, and more vaguely promised Europe's efforts to get them better tariff status in the World Trade Organisation.

Whether this will soothe the nerves of ACP states, who are worried that their frail economies will crack under unbridled competition with industrialised Europe, is not certain. It is, however, clear that Lomé is no longer properly serving the interests of either Europe or the ACP.

Forged in 1975 largely with former European colonies, Lomé helped Europe assuage its post-colonial guilt, maintain western influence during the cold war, and perhaps keep aid higher than it would otherwise have been. Its unique combination of aid and trade benefits also appeared to offer the ACP states a generous deal.

But Lomé aid, currently Ecu3bn a year, has not significantly helped ACP states, of which 39 are among the world's 48 least developed countries. Its Stabex and Sysmin schemes are expensive, but have hardly stabilised ACP commodity earnings. Its banana regime has been thrown into turmoil by a WTO ruling, while the value of its sugar regime will be threatened by Europe's increasing alignment on world prices. Most damning of all is the fall in the ACP share of the EU market, from 4.7 per cent in 1990 to 2.8 per cent in 1994, as world trade liberalisation has steadily eroded the advantage afforded by Lomé preferences.

The question is whether regional free trade areas (FTAs) are the best replacement for Lomé on trade, and if so, how feasible they are. Brussels has always favoured the spread of regional integration. But even if one accepts that FTAs are building blocks towards multilateral liberalisation, it is doubtful that there is sufficient political cohesion among the African, Caribbean and Pacific members of Lomé to negotiate free trade. It appears to have been this doubt that, inside the EU, led some northern, liberal countries to question the FTA idea.

Ideally, ACP states would match the EU in committing themselves to freer trade and thereby remove once and for all the red tape and corruption that trade protection brings. The EU should therefore push the FTA idea to see how far it will go, without creating diversionary effects on trade. In doing so, however, Europe should not be distracted from the need to get a better world regime for less developed countries in general. It owes its former colonies a last big effort, one way or another, to integrate them better into the world economy.

Asia's Great Depression

On July 2 last year, Thailand devalued the baht and precipitated the region's worst economic crisis since the 1930s. In the first of two articles, FT writers consider the impact of a year of turmoil. Today, Peter Montagnon and Ted Bardacke look at the country where it all began

"We're going down and we don't know when we'll reach the bottom." So says Thaksin Shinawatra, a Thai mobile-phone entrepreneur who went into politics and is a former foreign minister.

It is a gloomy assessment of Thailand's situation almost a year after the country sparked Asia's economic crisis by devaluing its baht. It contrasts with the praise Thailand has received from international bankers and others for the zeal with which prime minister Chuan Leekpai has followed International Monetary Fund prescriptions.

Yet Mr Thaksin has reason to be anxious. Thailand's economy is expected to shrink between 5 and 8 per cent this year, according to private sector economists. Credit has dried up, government finances are tight, real wages have collapsed and the dollar value of exports is barely rising. All this puts Thailand in the mid range of Asia's troubled countries: better than Indonesia, where national income is likely to fall 12-13 per cent this year; worse than Malaysia, where the consensus forecast is minus 2 per cent. First into the crisis, Thailand should be closest to a cure. Yet after a year there is still no convincing evidence that the medicine is working.

Is Thailand's plight continuing because its basic approach is wrong? Does it reflect the poor external climate, made worse by the travails of Japan? Or is it due to the sheer size of the clean-up needed? These questions will preoccupy other governments in Asia, too, as they ponder the first anniversary of the crisis.

At the heart of the matter is a dilemma that is only now becoming clear. Since so much domestic capital was wiped out by the bursting of its property and investment bubble, the most pressing need is to recapitalise the banking and industrial sector with foreign capital.

The question is how. The heterodox view is that the government should provide more monetary and fiscal stimulus because foreign capital will not flow into an economy that is shrinking so fast. Bad loans in the banking system are still growing, says Ammar Siamwalla of the Thailand Development Research Institute, not because of the impact of devaluation on corporate balance sheets and cashflow but because of the weak demand. More devaluation and easier money are essential, he says.

That is not how the authorities see it. They say the country can attract foreign money only if it contains inflation and stabilises the exchange rate. "We are not abandoning the game of stabilisation, to swing the other way into flooding the market with liquidity," says Tarrin Nimmanhaeminda, finance minister. "There is no assurance that we wouldn't get into a liquidity trap if the market is not confident that we're not moving the right way."

So the government is concentrating on promoting corporate restructuring to sanitise the banking system, get credit flowing again and revive the economy. It has started to put the bill for rescuing the banking system on its own books. Corporate restructuring will force banks and companies to realise losses incurred during the bubble, so the slate can be wiped clean.

The new session of parliament that opened last week will attempt to pass new legislation on bankruptcy and foreclosure, areas where other Asian countries have also lagged behind. New laws will also help speed up privatisation and relax restrictions on foreign ownership of property. All these should help encourage restructuring, although an election looms next year, which could be destabilising.

Nevertheless, the government can claim some successes. Last week it raised more than $500m (£300m) from the sale of loans on the books of failed finance companies. Two large banks – Bangkok Bank and Thai Farmers – have raised large international share issues. From Tesco of the UK in retailing to Norsk Hydro in potash, foreign buyers of Thai assets have been on the prowl.

But the price of maintaining exchange rate stability has been high. There has been a fierce monetary squeeze (broad money is growing more slowly than prices); unemployment is rising.

Nor can the government easily relax fiscal policy. Although the IMF foresees a budget deficit of 3 per cent of gross domestic product for the current fiscal year, this excludes the cost of carrying the debt incurred as part of the $25bn rescue operation for the financial sector. With the interest cost of this debt included, the deficit is somewhere between 5 and 6 per cent, and it is not clear where additional funds would come from to finance a larger deficit. Partly because of the turmoil created by the Japanese crisis, Thailand has still not launched a planned international bond issue.

Critics say the policies are leading to an impasse. In an extraordinary *cri-de-coeur*, Sathit Uthaisri, group executive vice-president of Bangkok Bank, warns that bad loans are growing. "It is nearly impossible in this environment to turn non-performing loans into good ones," he says. Orthodox solutions are no longer the answer, he adds. "We have to replace the whole system with something that bears no relation to the past."

For some in Thailand that implies a retreat into nationalism. Already there have been objections to the possible sale to foreigners of state-owned enterprises such as Thai Airways International and Bangchak, the petrol refiner and distributor. Legislation allowing foreigners to own property is likely to be controversial and prices may yet have some way to fall before any real buying interest appears. There may also be strong resistance to foreclosure procedures even when the new legislation is passed.

Mr Thaksin says the answer is to alter the dosage, though not the medicine. Thailand may not be able to start growing again until the financial sector is reformed and the losses that have been incurred have been paid for, but, he says, the real economy cannot survive with such high interest rates. Indeed he reckons that if growth does not resume soon there will be no one left for a cleaned-up banking system to lend to.

Thailand is still struggling to keep the balance between encouraging growth and reasserting macro-economic stability. There has been some relaxation on the monetary and fiscal front, but restoring the health of the financial system is paramount. "Do I feel the heat? Yes, of course," says Mr Tarrin. "But that's the way it is." And, if Thailand is any guide, that is the way it will be, at least for now, all over Asia.

The next article will look at Asia and other emerging markets.

Asia's year of reckoning

July: the trigger
2 Thailand floats the baht. It falls 20 per cent to Bt29 against the dollar. Malaysian ringgit at M$2.52/$; South Korean won at Won887/$; Indonesian rupiah at Rp2,434/$.
8 Malaysia intervenes to support the ringgit.
17 Singapore allows currency to fall.
24 The region's currencies fall further. Mahathir Mohamad, Malaysia's prime minister, says "rogue speculators" are to blame.

August: the first IMF package
14 Indonesia floats the rupiah. It falls to Rp2,682/$.
20 IMF approves $17bn rescue package for Thailand.
23 Dr Mahathir calls George Soros a "moron".

October: Wall Street reacts
14 Taiwan devalues.
20-23 Hang Seng falls 25 per cent in four days.
27 Hang Seng falls another 5.5 per cent, triggering reaction round the world. Wall Street falls 554 points (7.2 per cent), its biggest-ever points loss.
31 IMF unveils $23bn rescue package for Indonesia.

November: the crisis widens
10 Brazil cuts public spending 15 per cent, having doubled interest rates to 43 per cent.
17 Korea stops supporting the won. It falls to more than Won1,000/$.
20 Won falls the maximum permitted 10 per cent for three days running after emergency budget.
24 Yamaichi Securities goes bust, Japan's largest corporate failure. This follows the bankruptcy of Hokkaido Takushoku (the 10th largest commercial bank) and Sanyo Securities.

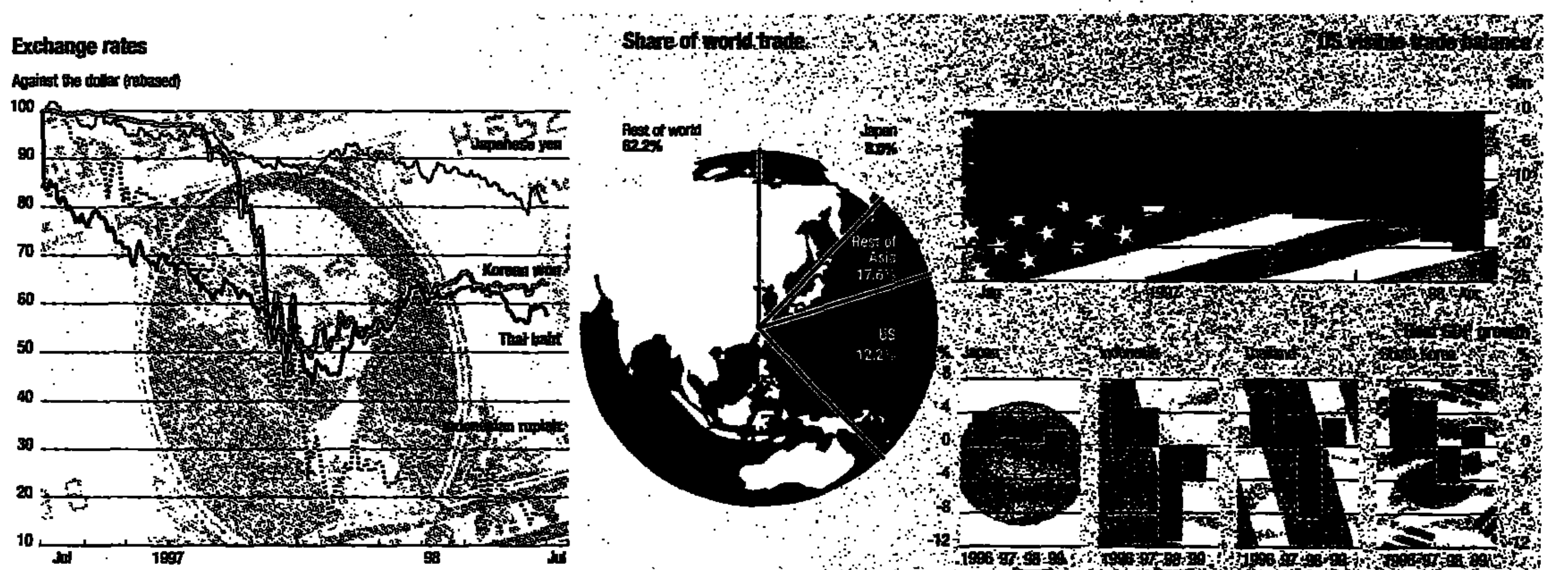
December: Korea at the brink
4 IMF approves $57bn rescue package for Korea.
6-8 Halla, Korea's 11th largest conglomerate, files for protection from creditors. Thailand closes 56 finance companies. Malaysia cuts public spending by 18 per cent, its biggest policy change for decades.
12 International banks say Korea must renegotiate $57bn IMF package. Won hits Won1,891/$.
17 Japan cuts income tax by $16bn.
18 Kim Dae Jung elected Korean president.
26 Won rises by nearly a quarter.

January
15 IMF and Indonesia sign new agreement on economic reform.
22 Rupiah collapses, falling to Rp17,000/$ before rallying.
27 Indonesia suspends debt service payments.
28 Korean government and creditor banks reschedule $24bn of debt.

April: Japan's big sell-off begins
2 Chairman of Sony says Japanese economy on verge of collapse. Nikkei falls 3.3 per cent.
3 Moody's downgrades Japan's sovereign debt. Debate on IMF in US Congress: widespread attacks on the Fund's performance in Asia.
8 Yet another IMF-Indonesia agreement on economic reform.
17 US trade deficit reaches $12.1bn in January, highest-ever monthly figure.

May: Indonesia's crisis
8 Student riots erupt in Jakarta.
13 Jakarta's stock market falls 8 per cent; rupiah falls to more than Rp10,000/$.
19 Russia raises interest rates to 50 per cent.
21 Suharto resigns.
26 Korea's GDP falls 3.8 per cent in first quarter.
27 With the rouble under severe pressure, Russia raises interest rates to 150 per cent.

June: The US steps in
8 Yen falls below Y140/$. Australian dollar falls to A$1.65/$, just above its all-time low.
10 China's central bank governor raises fears China might devalue in wake of the falling yen. Taiwan dollar falls to 11-year low.
12 Japan says first quarter GDP fell 5.3 per cent at annual rate.
18 US and Japan intervene to prop up the yen.
23 Hong Kong announces $32bn package to support currency.
30 Baht at Bt42.2/$; ringgit at M$4.128/$; won at Won1,373/$; rupiah at Rp14,750/$.



Sources: Datastream/ICV, WTO, ING Barings

OBSERVER

Viennese whirl

Best of luck to Viktor Klima, the Austrian Chancellor who climbs into the Europe's hottest seat today as his country takes its first shot at the EU presidency.

The schoolteacher's son suggested a few weeks back that he'd learned lessons from Britain about how not to run the show. He wasn't shy about criticising British PM Tony Blair for failing to do his homework before the Brussels summit, which ended up being overshadowed by Franco-German arm-wrestling over the European Central Bank.

Now is the moment for Austria's former oil industry boss to show that he really can make things run smoothly. But it won't be easy. Austria is still adjusting to the cultural shock of EU membership. By most accounts, the infinitely flexible Finns are top of the Euro-class of 95, while the stubborn Swedes refuse to join the mainstream; the Austrians are reckoned to be somewhere in-between and Klima will want to encourage a more positive role.

Meanwhile, he's got to press ahead with thorny issues like EU enlargement to central and eastern Europe, while keeping one eye on the rugged political landscape back home. With national elections scheduled for next year, Austrian right-wing populist Jörg Haidar will be waiting to make the most of any slips.

Observer wishes Herr Klima every success – and reminds him that, like Tony Blair, he will be assessed at the end of his presidency.

Border country

Percy Barnevik, the fast-talking chairman of ABB and Investor, believes in a new, borderless world of business. But, as he told the annual congress of European Chambers of Congress, he sometimes has trouble getting his vision across.

Dining with Michel Rocard, Barnevik started expounding on US market forces. The former French prime minister bristled: "You Americans cannot criticise us about subsidies." Barnevik explained that he lived in Switzerland. "You Swiss are the worst of all," came the reply. Barnevik protested that he was, in fact, Swedish. "Well," retorted Rocard, "you have nothing to be proud of."

The conclusion? It really doesn't matter where you're based or what passport you carry. QED.

Song for Europe

A surprisingly high interest rate as the European Central Bank was launched with some pizazz in Frankfurt's elegant Alte Oper. But it wasn't the high-brow selection of works by Wagner, Verdi, Gounod and Elgar – or even a lively French drinking song – that got the crowd going. Europe's political and banking elite reserved their standing ovation for a stirring chorus of *Money makes the world go round* by Maastricht's Royal Dutch male choir.

First on his feet to applaud was Wim Duisenberg, the normally stolid Dutchman who'll be calling the tune as the ECB's first president. Next to rise were Chancellor Helmut Kohl, Germany's biggest baritone, and Jacques Delors, the former European Commission who can still belt out old favourites with the best of them.

For Kohl, who was next to speak, the foot-tapping extract from the musical *Cabaret* was a tough act to follow. Though it's lucky they didn't choose *Hey, Big Spender*.

Up the Crete

Up-and-coming banking tycoon Spyros Latsis is a reclusive type about whom little is known. But he can't be a superstitious man. Otherwise he wouldn't have bought Cretabank, the Greek financial institution which seems to bring monumental bad fortune to its owners.

The Latsis family bought control of Cretabank at Monday's government auction through their EFG Eurobank chain of private banks. Greek bankers reckon that Spyros, son of the legendary shipping magnate John Latsis, paid a very full price to gain control. One theory is that he's trying to buy off the evil eye; Cretabank's two previous owners both ran into serious trouble.

The Carras shipping family sold what was then known as Bank of Crete in the mid-1980s – but not in time to prevent their luxury hotel resort in northern Greece, Porto Carras, from slipping into bankruptcy. George Koskotas, the Greek-American entrepreneur who bought it, was subsequently caught with his hand in the till and is still serving a long jail sentence for fraud.

Let's hope the Latsis clan have, in best Greek tradition, hung up blue beads for luck.

Little big man

Only last week a group of highly trained British army officers had to be rescued from the snowy slopes of Mount McKinley when their attempt to conquer North America's highest mountain turned sour. Now the fearsome Alaskan peak has been conquered by a climber who's not old enough to join the Boy Scouts let alone the Princes of Wales's Royal Regiment; 12-year-old Kim Yong Sok from South Korea completed the 20,000 ft ascent last weekend – accompanied by his dad.

But the British army's finest shouldn't feel too bad about being eclipsed by the mountaineering minor. Young Kim has been climbing since he was three years old and bagged the Matterhorn at the age of eight. At this rate he'll scale Everest before he reaches puberty.

The Financial Times

100 years ago

Workmen's Compensation Act
To-day comes into operation one of the most socialistic measures yet adopted by Parliament. It is nearly eleven months since the Workmen's Compensation Act received the Royal assent, and during that time employers have been busily engaged in trying to determine their liability under the Act, and to find protection from the tremendous responsibility cast upon them. The effect of the Act is to make every employer within the statute the insurer of his workmen against accidents which incapacitate them from work beyond two weeks. The old-fashioned notion that every master ought to be made to pay only when he or his servants have been guilty of negligence or misconduct is a principle now exploded.

50 years ago

Firm stand in Berlin
Britain, the U.S. and France are to stand firm in Berlin. Mr. Bevin, Foreign Secretary, made this abundantly clear in the Commons yesterday, but at the same time warned M.P.s that as a result of the steps that would have to implement this decision – the great airlift to keep Berlin supplied – "a grave situation might arise."

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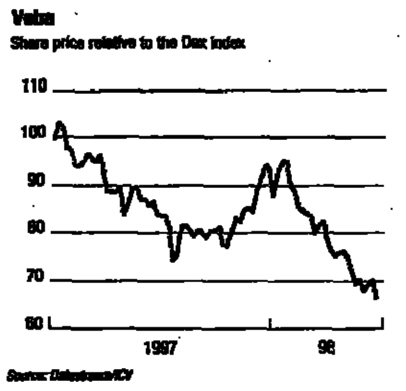
FINANCIAL TIMES

WEDNESDAY JULY 1 1998

THE LEX COLUMN

Veba veers off course



Veba's sluggish performance recently has won it few brownie points. Labouring beneath a sizeable conglomerate discount, it has underperformed the German market by 33 per cent since January 1997. Hence the 8 per cent share price fall on Ulrich Hartmann's comment that meeting a double-digit earnings target this year would be "very difficult". Fears of large charges to deal with the main problem area, an uncompetitive silicon wafer business, have led to substantial downgrades for 1998 and caution thereafter.

It will be no bad thing if this prompts a more radical restructuring. So-called portfolio optimisation, which many German *conglomerates substitute for strategy*, has run its course at the diversified electricity business. Now the easy cost-cutting is *done, tinkering around the edges will not* get shareholders' pulses racing. Encouragingly, Mr Hartmann hinted at plans to cut *the number of Veba's business units* further, from 40 to around 25.

There should be little compunction *about slimming down to the core electric*ity business and fast-growing telecommunications oper[...] Once complications in its shareholding structure have been sorted out, the oil division should go. Likewise, when the Degussa merger is complete, the chemicals division should be restructured and then demerged or sold. Investing any proceeds in these two areas, and perhaps also a buyback, should ensure the shares outperform again.

Rhodia

Rhodia is a story the market wants to believe. Rhône-Poulenc sold 33 per cent of the chemical business last week, and the shares, priced right at the top of the range, have jumped 20 per cent since. This looks overdone.

True, the business trades at a discount of between 15 and 30 per cent to speciality chemicals companies Ciba Speciality Chemicals and Clariant. But a discount is justified. Their portfolios are far stronger, boasting jewels such as Ciba's additives business and Clariant's process and performance chemicals. Rhodia's profile has improved but there are still weaknesses. Divisions such as paper and coatings and detergents are in part biased towards commodity chemicals.

The management wants to improve returns from its research and development budget. But the quickest way to inject more speciality chemicals into a *portfolio is through acquisitions. And* recent deals in the sector have been pricey.

Meanwhile, Rhodia lags behind rivals on margins and costs. It is aiming for margins of earnings before interest, tax, *depreciation and amortisation* – ebitda – of 15 per cent by 2000, compared with around 12¼ per cent now. To get there it needs to cut headcount – possibly by 5 per cent. The sale of its polyester business should complete the trick. By then, though, its competitors will have moved on. Rhodia's recovery story deserves an audience, but investors should be wary of premature comparisons with rivals that have earned their rating.

Hilton Hotels

Hilton has only itself to blame for the lame reception that greeted yesterday's plan to demerge its hotel and gaming interests. The logic behind a split still holds: freed of the poorly performing casinos, the hotel company should attract a higher valuation; and as pure entities, they will each be better placed to partake in industry consolidation.

But this demerger has been on the cards *for so long that investors' enthusiasm has* cooled – as has the US hotel market. *Meanwhile, several big deals have slipped* through Hilton's fingers, from ITT and Circus-Circus to Inter-Continental.

By contrast, yesterday's agreement to merge the new gaming company with Grand Casinos for $1.2bn including debt looks like small beer. Grand's three Mississippi casinos will add nothing to Hilton's *strength in Las Vegas and Atlantic City*, the two gambling markets that matter. Yet Hilton is paying 11 times 1997 ebitda, even though the demerger implicitly values the new gaming company at just nine times ebitda. The suspicion is that the purchase's main purpose is to allow the demerger to proceed tax-free.

Stephen Bollenbach, Hilton's chief executive, may yet put all to rights with another long-awaited blockbuster: the acquisition of Ladbroke. But he should *note that, while Hilton's stock has been* flat this year, Ladbroke's has climbed a quarter.

Safeway

Six months ago David Webster, Safeway's chairman, could scarcely have dared hope reporting 6.4 per cent sales *growth at the annual general meeting*. That he was able to is a commendable feat, much influenced by the successful *relaunch of the loyalty card. The question* remains, though, whether this can be sustained. Weak comparatives in the next six months will play in Safeway's favour. Next year the going will be tougher.

Part of the problem is cost. The price paid in margin, and hence profit foregone, doubtless accounts for the fairly tepid market response to the figures. But there is also a wider concern. The significant lag in like-for-like growth between the UK's big two – Tesco and J. Sainsbury – and Asda and Safeway is potentially destabilising. So far Safeway has escaped without retaliation for its generous loyalty promotion. But this may not last.

Right now investors are revelling in the sector's defensive qualities. But the aggressive current valuations are doubly vulnerable: to a retreat in sterling, and to a cranking-up of competitive pressures in the sector. In the short term, Safeway, whose valuation trails its big three rivals by upward of 15 per cent, may offer the best value. Longer term, to ensure its independence, Safeway will have to show that *improved sales can be translated into* improved profits. With bigger competitors already doing the same, it remains a *daunting challenge*.

Clinton's Taiwan policy earns Beijing's cheers

By Stephen Fidler in Shanghai

President Bill Clinton yesterday spelt out publicly for the first time US policy on relations between Taiwan and China, making it clear Washington does not support United Nations membership for the island that China says is part of its territory.

The enunciation of the policy in Shanghai, during his tour of China, will please his Chinese hosts but was sharply criticised in Taiwan. Mr Clinton said he had reiterated to *Jiang Zemin, the Chinese president*, the US policy on Taiwan, which has been described as the "three nos".

Mr Clinton said: "We don't support independence for Taiwan; or two Chinas; or one Taiwan, one China. *And we don't believe that Taiwan* should be a member in any organisation for which statehood is a requirement." *He said it was also US policy* that the differences between China and Taiwan be resolved peacefully.

US *officials* sought to play down the significance of the remarks, which were, Mike McCurry, the White House spokesman, said "merely a reiteration of long standing US policy".

But in Taipei, Reuters reported that Roy Wu, the foreign ministry spokesman, told reporters: "The United States and Chinese communists have no right and are in no position to conduct bilateral negotiations on anything related to our affairs." Asked about the negative reaction, Mr McCurry said: "I don't know why they would be upset at a restatement of long standing US policy."

The "three nos" first emerged publicly as US policy in late 1996, when *the US first said it would oppose* attempts by Taiwan to become a member of the UN and other organi*sations requiring sovereignty. At* that time, Taiwan was seeking UN membership. The statement was being seen yesterday as an important concession to the Chinese government, which has long sought to hear that policy formulation from Mr Clinton's lips. It came only after Mr Clinton had left Beijing, where he had conducted a series of meetings with senior officials and where, unprecedentedly for a foreign leader, he twice directly addressed the Chinese people on live television.

In other comments yesterday, Mr Clinton said he did not believe growth in Asia would resume unless Japan began growing again. "We cannot see growth restored in Asia unless it is restored in Japan," he said. Mr Clinton said the Japanese government was constrained in its action by elections for the Upper House of the Diet, on July 12. In the next few days, the Japanese government would disclose its planned financial reforms, he said.

"If it is a good proposal and the confidence of the investors of the *world is raised*, then I believe you will see the situation begin to turn around," he told a Shanghai radio phone-in *programme*.

China's interest rate cut, Page 10
Clinton's football diplomacy, Page 16

Japanese agency files $33m suit against Sumitomo Bank

By Gwen Robinson in Tokyo

A Japanese government agency yesterday sued Sumitomo Bank for allegedly persuading housing loan companies, which later collapsed, to lend money to problem clients.

The Y4.8bn ($33.6m) suit was the first step by a government agency toward forcing some of Japan's top banks to take responsibility for their roles in the 1996 collapse of *seven* housing loan companies, or *jusen*, with debts of more than Y6,400bn.

The move highlights the growing push for accountability in Japan's scandal-plagued financial system, *and the use of the legal system in* trying to clean up the mess.

The action against Sumitomo Bank was brought by the Housing Loan Administration Corp, which was established to clear up the mountain of problem loans left by the loan company collapse.

The *jusen* failure triggered public outrage when the government used some Y680bn of public funds to write off some of the loans.

Kohei Nakabo, president of HLAC, said Sumitomo Bank had been "particularly ferocious" in its involvement in the affair and had displayed a "serious lack of morals".

Mr Nakabo, a veteran of many legal battles involving financial organisations, had said in March that the HLAC planned to sue nine large banks for alleged involvement in the *jusen* failures. He said yesterday he would continue questioning organisations which "refuse to acknowledge their responsibilities".

Lawyers for HLAC told the Tokyo District Court that three Sumitomo Bank branches had used illegal or *misleading methods to encourage* two *jusen* companies to give nearly Y5bn in loans to three borrowers. In one case, a Sumitomo Bank branch in Gifu, in central Japan, is alleged to have fabricated documents to inflate its client's assets.

In another case, a bank branch in Yokohama is alleged to have falsely assured a *jusen* company that its client required a loan to invest in stocks, although it knew the client intended to re-lend the money to a third party, the HLAC said.

The suit also claimed that the three Sumitomo Bank branches had waived the normal commission for introducing clients to the two *jusen* companies in return for gaining low-interest deposits from them.

Sumitomo Bank said yesterday it had "no legal responsibility" for introducing clients to *jusen* companies, but would not comment on the alleged falsification of financial details. However, Mr Nakabo said he *had selected the three introductions* by Sumitomo Bank branches as "nuclear warheads" to launch the *HLAC's legal campaign*.

The case followed another legal "first" last week when 14 insurance companies lodged a case against Yamaichi Securities, which collapsed last November. The companies demanded Yamaichi repay Y43bn of subordinated loans in light of disclosures that it had fraudulently concealed Y260bn of losses.

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Surveys: details of forthcoming editorial surveys.
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Thousands of building workers brought parts of Manhattan to a standstill yesterday, accusing New York's Metropolitan Transportation Authority of jeopardising their jobs by using non-union labour. Picture: AP

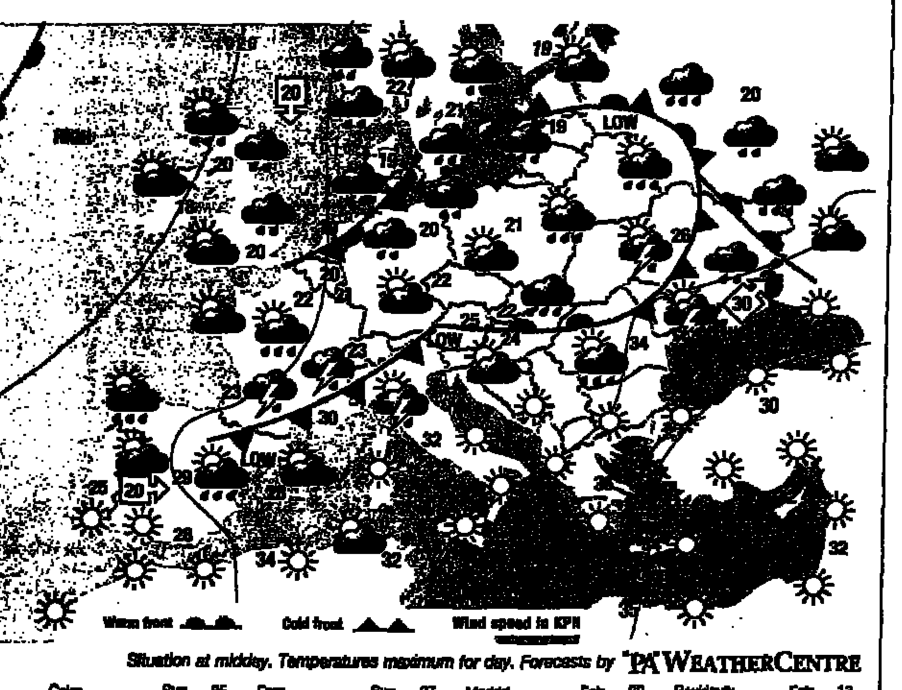
FT WEATHER GUIDE

Europe today

Low pressure over large areas of Europe will bring unsettled conditions. Scandinavia will be cloudy in many places with showers or longer spells of rain. Northern Finland and regions around the Gulf of Bothnia will remain mainly dry with sunny spells. From the Baltic countries to the Alps and northern Spain, there will be heavy, thundery showers or longer spells of rain. Much of western Europe will be showery and cool with limited sunny spells. The Balkans, the Black Sea and much of the Mediterranean will be hot and *mainly sunny*.

Five-day forecast

From the Baltic countries to the Alps and northern Spain, there will be heavy rain. Much of western Europe and Scandinavia will be cool and showery. The Mediterranean will be hot and sunny.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	39
Accra	Thunder	29
Algiers	Sun	34
Amsterdam	Shower	19
Athens	Sun	36
Atlanta	Thunder	34
B. Aires	Fair	21
B.ham	Shower	18
Bangkok	Thunder	33
Barcelona	Fair	30
Beijing	Fair	33
Belfast	Fair	17
Belgrade	Sun	33
Berlin	Shower	20
Bermuda	Fair	30
Bogota	Thunder	19
Bombay	Thunder	31
Brussels	Shower	20
Budapest	Thunder	29
C.hagen	Shower	19
Cairo	Sun	35
Caracas	Fair	32
Cardiff	Fair	18
Casablanca	Fair	24
Chicago	Fair	26
Cologne	Shower	21
Dakar	Fair	29
Dallas	Thunder	36
Delhi	Fair	34
Dubai	Sun	41
Dublin	Shower	16
Dubrovnik	Sun	32
Edinburgh	Cloudy	19
Faro	Sun	27
Frankfurt	Shower	21
Geneva	Shower	23
Gibraltar	Fair	29
Glasgow	Fair	20
Hamburg	Shower	18
Helsinki	Shower	19
Hong Kong	Fair	32
Honolulu	Fair	31
Istanbul	Sun	30
Jakarta	Fair	33
Jersey	Cloudy	17
Johannesburg	Fair	19
Karachi	Cloudy	37
Kuwait	Sun	48
L. Angeles	Sun	24
Las Palmas	Fair	27
Lima	Cloudy	23
Lisbon	Fair	25
London	Shower	20
Lux.bourg	Shower	20
Lyon	Thunder	23
Madeira	Cloudy	25
Madrid	Fair	29
Majorca	Fair	30
Malta	Sun	36
Manchester	Cloudy	19
Manila	Shower	33
Melbourne	Shower	13
Mexico City	Thunder	31
Miami	Thunder	34
Milan	Thunder	30
Montreal	Shower	19
Moscow	Rain	20
Munich	Shower	23
Nairobi	Fair	23
Naples	Sun	35
Nassau	Thunder	33
New York	Fair	29
Nice	Thunder	27
Nicosia	Sun	32
Oslo	Shower	22
Paris	Shower	22
Perth	Shower	16
Prague	Rain	22
Rangoon	Thunder	31
Reykjavik	Fair	13
Rio	Fair	27
Rome	Sun	32
S. Frsco	Sun	20
Seoul	Rain	29
Singapore	Thunder	32
Stockholm	Shower	21
Strasbourg	Shower	22
Sydney	Shower	15
Tangier	Fair	24
Tel Aviv	Sun	32
Tokyo	Rain	26
Toronto	Fair	25
Vancouver	Fair	20
Venice	Thunder	29
Vienna	Thunder	28
Warsaw	Rain	21
Washington	Fair	30
Wellington	Rain	15
Winnipeg	Fair	25
Zurich	Thunder	22

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FINANCIAL TIMES
COMPANIES & MARKETS
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WEDNESDAY JULY 1 1998
Week 27

INSIDE

Coca-Cola sights on wider market
Coca-Cola has its sights set beyond the fizzy drinks sector and on the much larger market of beverages of every kind. Tea, coffee and tap water are its targets. In the long run, given the scale of the company's marketing effort, it would seem tap water does not stand a chance. Page 28

Flemings to launch Russian fund
Flemings, the Scottish fund management group, will tomorrow launch its first mutual fund in Russia. The fund is targeted at domestic small investors, who are believed to keep an estimated $20bn of savings stuffed under mattresses. However, the launch comes at the time of a stock market fall on fears of a possible rouble devaluation. Page 24

BHP split on the cards again

After last week's A$1.47bn ($896m) bottom-line loss at Australian group Broken Hill Proprietary – only the second in its 113-year history – talk of it being dismembered resurfaced. In the past year investors, appalled by BHP's rash of ill-conceived deals, have wiped A$13bn off its market capitalisation and pressure is mounting for Jerry Ellis, chairman, to resign. Tipped to replace him is Ron McNeilly, acting chief executive (left). Page 22

CEI awaits state deregulation
Argentina's CEI Citicorp Holdings has rapidly become the country's dominant media group. But the real prize, CEI believes, will follow deregulation of the telecoms market in 1999. Then CEI will be able to offer nationwide domestic, long-distance and international telephony, plus cable TV and internet access, all down the same wire. Page 27

Pakistan gold up 11% in two months
Gold prices in Pakistan have risen almost 11 per cent over the past two months in a sign of growing turbulence across the country's financial markets. The rupee was devalued by 4.2 per cent at the weekend. The country is struggling under the weight of western sanctions, imposed after Islamabad's recent nuclear tests. Page 30

Israel Discount bids courted
Israel called for bids for 30-53 per cent of Israel Discount Bank, the country's third largest, in the latest round of its privatisation programme. The government and M. I. Holdings, the company responsible for privatising banks, said they had decided to sell the shares after several investors expressed interest. Page 24

Moody's buys into Korean agency
Moody's Investors Service is taking a significant investment in a leading Korean credit rating agency, Korea Investors Service. The move follows attempts by the Korean government to open its capital markets to international investors. Page 32

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MARKET STATISTICS

Hilton to divide operations

Casino business to acquire Mississippi gambling group

By Richard Tomkins in New York

Hilton Hotels is to split into separate hotel and casino companies, with the casino side taking over the Mississippi gambling operations of Grand Casinos for about $650m.

The split, announced yesterday, is intended to benefit Hilton's shareholders by freeing the thriving hotel business from the lacklustre casino operations, which have been dragged down by over-capacity in the US gambling industry.

Hilton's shareholders will receive one share in each of the hotel and casino companies for each existing share. The yet-to-be-named casino company aims to acquire Grand Casinos for about $650m in stock.

The casino company will also assume about $550m in Grand Casinos debt, putting an enterprise value of about $1.2bn on the deal.

The casino company will acquire three Grand Casinos Mississippi-based properties in Tunica, Gulfport and Biloxi. A separate Grand Casinos business managing casinos on Indian reservations will be spun off to Grand Casinos' shareholders.

Hilton was under shareholder pressure to do a deal after losing last year's $11.7bn bid battle for the rival ITT hotel and casino group to Starwood Hotels & Resorts Trust.

This year Hilton was in merger talks with Circus Circus Enterprises, a big US casino operator with a stock market valuation of about $2.4bn at the time of the announcement. But the discussions collapsed.

By comparison the Grand Casinos deal is small. But it is significant because Hilton believes it will provide a business purpose for the split of its hotel and casino operations, increasing the likelihood that the spin-off can be accomplished on a tax-free basis.

In New York yesterday shares in Hilton were $1¼ down at $30¼, reflecting the market's disappointment that the deal was less than a blockbuster. Shares in Grand Casinos were $1 1/16 down at $16 11/16.

A transaction had been regarded as imminent because yesterday marked the deadline for Hilton to do a deal that would entitle Stephen Bollenbach, chief executive, to accelerate the vesting of stock options worth about $77m.

However, Hilton said that Mr Bollenbach had voluntarily waived his rights to exercise the options to avoid the suggestion that he had put his own interests above those of the company.

He will remain at the hotel company, which will retain the Hilton name, and will also become chairman of the casino company. Arthur Goldberg, president of Hilton's casino operations, will become chief executive of the casino group.

Lex, Page 20

Hilton chief Stephen Bollenbach: Will chair the casino company

UBS to review Japanese alliance

By Gillian Tett in Tokyo

UBS, the bank formed last week by the merger of Swiss Bank Corporation and Union Bank of Switzerland, is to hold talks with Sumitomo Trust about the UBS alliance with the ailing Long-Term Credit Bank of Japan.

The move follows LTCB's announcement last week that it hoped to merge with Sumitomo Trust. The outcome could prove to be a test case of how the Japanese authorities react to western banks attempting to steer a course through the domestic sector's liquidity crisis. UBS has inherited three joint ventures and a one per cent cross-shareholding between SBC and LTCB.

The proposed merger between LTCB and Sumitomo Trust is the first significant response by Japanese banks to last week's call by western and Asian leaders for a rapid resolution of the sector's crisis.

UBS has not given any pledge that it will maintain the alliance with LTCB. Luqman Arnold, head of UBS operations in the Asian region, said: "Our priority is to sit down with LTCB and Sumitomo Trust and see where our common interests lie. We are not ruling anything out, but nor have we given any assurances."

SBC negotiated the path-breaking alliance with LTCB last summer. Since then, several other western financial companies have reached alliances with weak Japanese partners.

Western banks fear they could face political pressure to rescue weak Japanese partners if they fail. But UBS has rejected government proposals that it should take over LTCB's core business.

UBS's response could ultimately determine the fate of the LTCB merger with Sumitomo Trust. Sumitomo has indicated that it hopes to use a merger with LTCB to build an investment banking business via the alliance with UBS.

UBS insists that its joint ventures with LTCB will continue to operate normally. Two of the ventures are in asset management and investment banking while a third – in private banking – starts today.

"We are well established in Japan, with three businesses up and running. We employ 1,200 people, and we have specifically designed services to meet the needs of the Japanese market," Mr Arnold said.

If the LTCB merger proceeds, it could strengthen the distribution network of the UBS group, as Sumitomo Trust has a large asset management business and corporate client base.

"You are seeing a scale of consolidation in the Japanese market which even those of us who believed in big bang did not expect so fast. This means the market will be dominated by Japanese bulge bracket players and profits will be better than expected for those players," Mr Arnold said.

Sunbeam may restate earnings figures

By Richard Waters in New York

Sunbeam warned yesterday that it might restate its recent earnings numbers, adding to the uncertainty that has hung over the company since it fired Al Dunlap, its abrasive chairman, this month.

The caution came as the US household appliances maker announced it had expanded an investigation of the accounting policies that were followed during the Dunlap era. The company's financial statements are also the subject of an informal review by the Securities and Exchange Commission.

The news seems likely to add to the number of shareholder lawsuits that has followed Sunbeam's spectacular fall from grace. Six have already been filed over the sharp deterioration in the company's business that pushed it into loss in the second quarter and led its shares to fall 80 per cent from a peak of $53 in March.

The accounting policies used by Mr Dunlap and Russell Kersh, his chief financial officer, have drawn considerable public attention. However, Arthur Andersen, the company's auditor, stood behind the clean audit report it issued on the 1997 accounts when Sunbeam directors sought its view this month.

Yesterday, Sunbeam said it had hired another accounting firm, Deloitte & Touche, to "assist in the review, along with . . . Andersen". That "could result in a restatement" of earnings for 1997 and the first quarter of this year, it added.

Andersen appeared to signal it was having second thoughts of its own late last week, when it told the company it was now withholding its audit report on the 1997 numbers until the reviews are over.

Before he was fired, Mr Dunlap referred to the most frequently criticised accounting procedure as "normal business practice". This involved a system known as "bill-and-hold", which allowed Sunbeam to record sales on barbecue grills that were not likely to be shipped to retailers, or paid for, for some months. Under this practice, the company would agree a sale to a retailer, then ship the grills to a warehouse where they would be stored until the retailer asked for them. Payment was to be made only after delivery.

While Mr Dunlap was still at Sunbeam, the company called this an "inventory management process" that was covered by generally accepted accounting principles in the US.

It refused to comment on the policy yesterday.

Veba stock falls 8% on profits target warning

By Ralph Atkins in Bonn

Shares in Veba, the Düsseldorf-based industrial conglomerate, fell more than 8 per cent yesterday to DM118.9 after Ulrich Hartmann, chairman, admitted the group would face difficulties reaching profit targets this year.

Mr Hartmann's comments, to a journalists' meeting in Munich, rekindled worries about Veba's MEMC silicon wafers operations, which have been hit by the Asian economic crisis.

Veba warned in May that the outlook for its lossmaking MEMC subsidiary was a "a factor of uncertainty" with regard to the group's stated goal of double-digit earnings growth in 1998.

Difficulties at MEMC have raised fears that Veba might be hit by higher than expected restructuring charges this year. Veba said it had already implemented an extensive cost-cutting programme at MEMC. The company insisted Mr Hartmann's comments had been "misunderstood" and did not amount to a revised profits forecast.

Veba has set three mid-term goals – an 8 per cent growth in turnover a year, double-digit earnings growth and a 15 per cent return on equity.

However, Mr Hartmann's comments appear also to have revived wider concern about the pace of restructuring at Veba, whose interests include power generation, oil, chemicals and logistics.

Veba has moved into telecommunications via a joint venture, o.tel.o, with RWE, the conglomerate. However, its strategy of investing heavily in network infrastructure has looked less wise since the telecoms market was opened at the beginning of the year, spawning competitors that have relied largely on leased infrastructure.

For 1997, Veba reported a 12.1 per cent increase in pre-tax earnings, to DM4.98bn ($2.79bn) on the back of an 11 per cent increase in sales to DM82.7bn. For the first quarter of 1998, disposals helped lift pre-tax earnings 57.6 per cent to DM1.81bn. At the time, Veba reported a "markedly higher loss" at MEMC.

Lex, Page 20

BARRY RILEY

Defending a half-time lead

If investment, like soccer, is a game of two halves, 1998 looks satisfactory at the halfway stage. Perhaps fund managers can relax, tighten up at the back and concentrate on defending their lead. In equities the World Index, after all, is up 14 per cent in dollars and by more than that in terms of most other currencies – by nearly 40 per cent, indeed, in South African rand.

But it has been a rough period outside the US and Europe, and pride can come before a fall. Exactly a year ago, after all, Hong Kong celebrated its return to China with an all-time high of 15,196 for the Hang Seng Index, and the market soon went even higher – but subsequently it has collapsed by 44 per cent. Of course, that includes not just the second half but also extra time.

At mid-1998, at any rate, the mood has changed from general confidence to risk aversion, and there is plenty of evidence of a flight to safety. The dollar has risen by 4 per cent trade-weighted over the six months and the 10-year Treasury bond yield has fallen by some 16 basis points. Government bond yields in core Europe have often declined by 50 basis points or more.

Yield spreads have widened out sharply in recent weeks, however. Riskier Brady bonds like those of Brazil and Venezuela are showing higher yields than six months ago, and there have been negative returns of more than 20 per cent on Russian bonds. Spreads on high yield US corporate bonds have recently started to widen and a number of new issues have been pulled or delayed.

Indeed, it is questionable whether the bond markets have been fundamentally as strong as the decline in nominal yields would suggest.

A supply cutback has affected the higher-rated markets; the US and the UK, of course, are moving into budget surpluses this year, and continental European issuance has been reduced as various EU member states have squeezed beneath their Maastricht borrowing constraints. Strong economic growth may further reduce European government borrowing.

Corporate and other "credit" bonds have therefore suffered (or, arguably, have become more attractive) as the effective premium paid for risk-free bonds has risen.

According to the Merrill Lynch global bond indices, the yield spread of eurosterling bonds against gilts has widened from 35 basis points a year ago to 60bp in the early part of 1998 to 85bp this month.

Big changes are being forced on global bond managers, who for years have led a comfortable existence by applying political and economic analysis to high-quality government bonds. This culminated in the wonderfully profitable convergence play as various fringe European government bond markets fell in line with the core German and French bond yields. But these bond fund managers are now being forced to widen their horizons.

Thus a survey by Greenwich Associates, the Connecticut-based consultancy, has found that most UK-based fixed interest managers are now willing to include credit bonds in their portfolios, and 20 per cent of them will now buy bonds rated BB or below, up from 10 per cent in the previous 1996 survey. Only 9 per cent restrict themselves to AAA-rated bonds, down from 17 per cent.

European bond funds are shifting in the direction of their US-based counterparts, being ready to accept higher risks as the price of decent returns.

This can be uncomfortable, however, at a time when spreads are widening. For instance, J.P. Morgan's Emerging Markets Bond Index showed a negative total return – of about 2 per cent – in the first half.

Can fund managers switch from being safe defenders to roving strikers? Only if they are lucky enough to discover a level playing field. Right now, though, it is tilting.

NKK cuts back stainless steel arm

By Alexandra Harney in Tokyo

NKK, Japan's third largest steel manufacturer, is to close some of its stainless steel operations in its latest attempt to improve profitability.

The move highlights the difficult conditions in the Japanese steel industry as it battles against lower-cost Korean manufacturers to meet shrinking domestic and Asian demand.

NKK said it would shut its hot rolled coil stainless operations at one factory in southern Japan, transferring its employees to other divisions. Before the move, NKK's annual hot rolled coil production was 10,000 tonnes.

Stainless steel prices have collapsed in Asia as demand has slumped and capacity has increased. Kenichiro Yoshida, of Salomon Brothers, said prices had tumbled from $3,000 to $1,200 per tonne over the last three years, damaging Japanese steel makers' profitability.

Losses from the stainless division hit earnings at NKK last year, analysts said. Net profits slid 14 per cent, from Y16.69bn to Y14.28bn ($101m), on sales up 3 per cent, from Y1,880bn to Y1,930bn.

"NKK was only a small player in the stainless market, but it was still a good idea to exit from that unprofitable business," said Mr Yoshida.

Demand for steel has also dropped as the vehicle and construction industries cut production. Japan's Ministry of Trade and Industry expects demand to slip 5 per cent year-on-year, to 24.3m tonnes, in the July-September period.

Japanese steel makers also face tough competition from lower-cost Korean producers such as Pohang and Posco. In blast-furnace production, Japanese labour costs are five times those in South Korea, according to Morgan Stanley Dean Witter.

In response, steel makers have introduced extra holidays, withdrawn from unprofitable businesses and liquidated subsidiaries to cut costs. Earlier this month, NKK and Kobe Steel announced they would close down operations for two additional days a month.

NKK also intends to pull out of semiconductors, where a collapse in prices for dynamic random access memory (D-Ram) chips has hurt profitability, and to consolidate its Toa Steel blast furnace subsidiary.

However, Kenichiro Yoshida said NKK's restructuring was too little too late. "While others in the market – assuming that conditions would get worse – started restructuring three years ago, NKK did not. It moved too slow."

The shares gained 5.56 per cent, or Y7, to close at Y133.

Breaking up is hard to do for struggling BHP

The 'Big Australian' could be split up after A$1.47bn loss, says **Russell Baker**

When Western Australian entrepreneur Robert Holmes à Court launched his daring raids on resources group Broken Hill Proprietary in the mid-1980s there was outrage at the prospect of the "Big Australian" being taken over or broken up.

But in the wake of last week's A$1.47bn ($896m) bottom-line loss – only the second in its 113-year history – talk of the group being dismembered is no longer considered heresy. In the past year investors appalled by BHP's rash of ill-conceived acquisitions and investments have wiped A$13bn off its market capitalisation.

Elaine Prior, BHP analyst at Merrill Lynch (Australia) says "the company has been a poor spender of shareholders' cash". BHP's woeful record has prompted the Australian Shareholders' Association this week to ask all BHP directors to voluntarily seek re-election at September's annual meeting.

A group of Sydney-based private fund managers led by BHP shareholder Derek Turner has threatened to requisition an earlier extraordinary meeting to remove chairman Jerry Ellis unless he resigns.

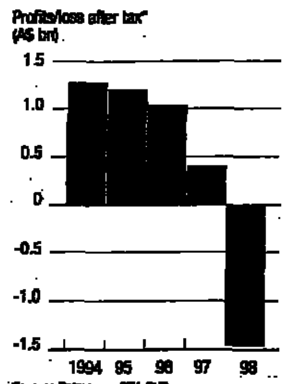
Last night BHP denied claims by Mr Turner that during a meeting with Mr Ellis yesterday the BHP chairman indicated he would step down at the AGM.

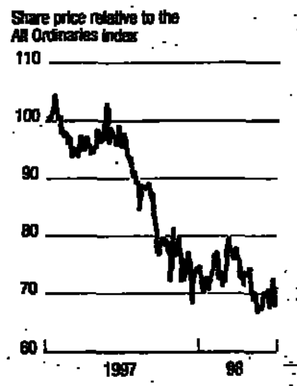
The bulk of the A$2.77bn in write-downs unveiled last week relate to acquisitions made – or investments approved – by Mr Ellis when he was head of BHP's Minerals Division. Mr Ellis orchestrated the A$3.2bn acquisition of Magma Copper in 1996 which has written off A$2bn. He also approved BHP's Hot Briquetted Iron (HBI) plant in Western Australia where the cost of construction has expanded from A$1.6bn to A$2.4bn. The HBI plant will make briquettes for Asian electric arc steel mills but the region's economic crisis looks like seriously affecting demand.

Mr Ellis, however, seems determined to hang on to his job – at least until BHP completes its international search for a new chief executive to replace John Prescott who resigned in March. BHP expects to have a new boss, almost certainly appointed from outside the company, before September's AGM.

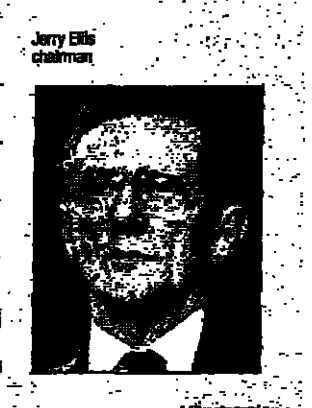
Whoever that is will have to deal with the fundamental question of whether the company should remain a diversified conglomerate or hive off its various parts.

Mr Ellis has indicated he wants the company to remain a conglomerate, believing the value of the whole is greater than the sum of the parts. However it is understood some analysts' estimates of BHP's break-up value is close to double its current share price of A$13.65.





Sources: Datastream/ICV; BHP



Jerry Ellis chairman

*After abnormal items

Ron McNeilly, acting chief executive, says BHP is "going forward as a diversified resources company, that's the shape that we're in". However Mr McNeilly, a candidate for the top job, says "that's not cast in stone" and other ways of creating shareholder value will be considered.

The number of potential bidders for a company of BHP's size - its stockmarket value is A$28bn - is small. The most obvious is Rio Tinto, the world's largest resources company.

However, there would be more potential bidders who could afford to buy chunks. A way of initiating a break-up of the group which might be acceptable to the current BHP board is to follow the example of New Zealand conglomerate Fletcher Challenge, which is the only Australian-listed company with "targeted" shares.

Fletcher has been reorganised into four separately-listed divisions – forestry, paper, energy and building – which have their own balance sheets.

However Fletcher remains a single legal entity and holders of shares in individual divisions are still shareholders of Fletcher. For the time being at least BHP intends to take a more orthodox approach by selling more assets, continuing to cut costs and reducing debt.

But if BHP tries to dump another A$3bn-A$5bn of assets over the next 18 months it may be hard-pressed to convince potential buyers they are not bidding for "fire sale" assets. Unfortunately for BHP management time may also not be on its side.

Twelve months ago when BHP announced A$1bn worth of asset write-downs management claimed it had dealt with its mistakes and promised no further write-downs. But now that a further A$2.77bn has been wiped off the balance sheet many shareholders would probably welcome a take-over bid. With the Australian dollar at a 12-year low, world commodity prices at the bottom of the cycle and the resources sector out of favour, an opportunistic bid can not be ruled out.

UTI takes 90% of Indian market

By Krishna Guha in Bombay

Unit Trust of India, the country's giant mutual fund manager, yesterday announced a 40 per cent increase in sales to Rs137bn ($3.2bn) last year – giving it a market share of more than 90 per cent in India.

Strong sales of its flagship US 64 scheme, which has about Rs200bn under management, resulted in a net inflow of Rs22bn to the fund. This will provide some relief to India's beleaguered stock markets, though analysts fear US 64 may face liquidity problems on account of a high dividend payment.

"We have done fairly well," said G. P. Gupta, chairman of UTI. "We had very good sales in a subdued market and the fund performance has been good."

UTI, with its mountains of paper share certificates, does not compute net asset value. But US 64 maintained its dividend at 20 per cent.

Mr Gupta denied speculation that UTI had been intervening to prop up the stock market in recent weeks. "The general impression got about that we have been trying to support the market when in fact we were taking advantage of market conditions to pick up shares at low levels," he said.

UTI introduced a range of new products last year in an effort to retain its dominant position in the market, he said. These included India's first index tracking fund for domestic investors, a bond fund with no entry fees and schemes for non-resident Indians.

The state-owned group also launched three funds for foreign investors – a debt fund, a public sector fund and a software fund. "Thereafter we were not able to launch any new offshore funds due to the south-east Asian crisis and political uncertainty," said Mr Gupta. However, he added that UTI would launch more offshore funds as soon as foreign investor sentiment towards India recovered.

NEWS DIGEST

BANKING

Jardine Fleming unit downgraded by Fitch

Jardine Fleming Bank, which acts as liquidity manager for the Jardine Fleming investment banking group, has been downgraded because of the impact on profitability of the Asian financial crisis.

Fitch IBCA, the UK credit rating agency, said it had cut the bank's rating from B to B-C. However, it has not marked down its short-term and support ratings, partly owing to the bank's strong liquidity. Its one-month liquidity is more than 80 per cent and recently has been more than 90 per cent. The bank relies largely on institutional and corporate depositors for its funding, and has little recourse to Hong Kong's volatile interbank markets, where funding rates are relatively high.

Jardine Fleming Bank, which focuses on short-term money market and foreign-exchange trading activities, said its pre-tax profit increased 85 per cent last year. Fitch IBCA said: "Despite the bank having a good year in 1997, with a substantial improvement in return on equity, the group's profitability has been affected by the Asian financial crisis."

Louise Lucas, Hong Kong

HONG KONG SECURITIES

Plan to change disclosure rules

The Securities and Futures Commission, Hong Kong's industry watchdog, is proposing a reduction in the initial substantial shareholding disclosure as part of efforts to improve transparency in the market. In a consultation paper issued yesterday, the SFC proposed cutting the threshold for initial shareholding disclosures from 10 per cent to 5 per cent, and shortening the notification period from five days to two.

However, it is also taking steps to ease the regulatory burden in other ways, for example by no longer requiring disclosure of shareholders and their shareholdings. The SFC also plans to waive the requirement for substantial shareholders to report minor fluctuations in their holdings.

Market participants have until the end of August to make their submissions on the consultation paper. The SFC is also studying to what extent derivative products should be liable for disclosure. The disclosure ordinance has not been updated since it was introduced in 1991. **Louise Lucas**

ELECTRICITY

Power failure hits NZ group

Mercury Energy, the Auckland-based company responsible for the power blackouts in New Zealand's biggest city, yesterday announced a NZ$25.3 (US$12.8m) loss for the year to March 31 due to the impact of the power failures. Last year the company made an after-tax profit of NZ$82.1m.

Jim Macaulay, chairman, said that but for the blackouts, earnings in the year would have set another record. He said the loss was caused chiefly by the NZ$128m cost of restoring power to the inner city area hit by the blackouts and of compensation to customers.

The company was prepared to face whatever conclusions emerged from a ministerial inquiry into the failure, Mr Macauley added, but it believed the breakdown of the four cables had been the result of unprecedentedly hot and dry conditions.

Total revenues rose 4.6 per cent, or NZ$27m, to NZ$607m.

Terry Hall, Wellington

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PRIVATISATION PROGRAMME CONTINUES WITH SALE OF SHARES IN THIRD-LARGEST BANK

Bids invited for stakes in Israel Discount

By Avi Machlis in Jerusalem

Israel yesterday called for bids for between 30 per cent and 53 per cent of Israel Discount Bank, the country's third largest, in the latest round of its privatisation programme.

The government and M.I. Holdings, the company responsible for privatising banks, said they had decided to sell the shares after several investors expressed interest. Requests must be submitted by August 12, with the state hoping to complete the sale, which could reduce its 60 per cent stake to 7 per cent, by the year-end.

Discount Bank has been paralysed recently by a labour dispute sparked when Arie Mientkavich, its chairman, launched a campaign to break its powerful workers' committee.

The bank's net income plunged 50 per cent to $9.2m in the first quarter this year. But the shares have climbed 48 per cent since February, to Shk4.84 yesterday.

Hadar Oshrat, head trader at Ilanot-Batucha Securities in Tel Aviv, said the shares were lifted by potential buyers accumulating stock ahead of the tender, and by speculation about a merger with First International Bank of Israel, the country's fifth largest.

Meanwhile, Yaakov Neeman, finance minister, yesterday told M.I. Holdings to sell another 2-4 per cent of Bank Leumi, the second largest, to the public and institutional investors. The state, which holds 61.5 per cent, hopes to raise up to $134m and plans later to sell a controlling stake.

When Discount Bank is privatised, Leumi will be the only Israeli bank in state hands. The government took over the big banks in 1983, after a share manipulation scandal pushed them towards collapse.

Last year the state sold a 43 per cent controlling stake in Bank Hapoalim, the country's biggest, to a consortium for $1.37bn.

The Tel Aviv stock exchange's yesterday published a report on 11 years of Israeli privatisation up to May 1998. It said about $3.2bn worth of shares in state-owned companies were publicly issued. In addition, investors paid a further $3.1bn to buy controlling stakes in companies.

However, at May 1998 the government still controlled, on average, 50 per cent of companies that have not been fully privatised.

The state-held shares were worth about $6bn, the report said, "representing significant potential for additional offerings".

Flemings aims to hit right note in Russian mutual fund sector

Scottish group says opportunities are huge despite stock market plunge on fears of rouble devaluation, writes **John Thornhill**

Flemings, the Scottish fund management group, will tomorrow launch its first mutual fund in Russia targeted at domestic small investors, who are believed to keep an estimated $20bn of idle savings stuffed under mattresses.

In keeping with its practice in other emerging markets, Flemings is linking with a strong local partner, Guta Bank, one of the more progressive private Russian banks, to market the fund.

Mark Jarvis, general manager of Flemings' Moscow office, says the opportunities for financial intermediation in Russia are immense. He compared the market with Brazil, which also has a population of about 150m people and boasts prodigious natural resources.

"In Brazil there is $60 per person in private pension funds and mutual funds. In Russia it is just 50 cents a person. Even if mutual funds here can attract $5 a person that implies 10 times growth," he says.

Yet the launch of the Fleming Guta fund comes at an inauspicious time in the brief history of Russia's financial markets, with the stock market having plunged two-thirds this year on fears of a possible rouble devaluation.

It also comes as many fund managers are growing increasingly disillusioned with the difficulties of operating in Russia. The 23 domestic mutual funds which have been launched in Russia over the past two years have so far attracted just $35m between them.

"The industry is languishing and needs a significant lift," says the director of a rival fund management group. "I do not know why anyone would choose to launch a fund right now."

However, Flemings, which has extensive experience of other emerging markets, argues the mutual fund industry has so far failed to take off in Russia because no-one has hit on the right formula. Russians remain extremely wary of entrusting their money to any financial institution, having been badly burned by fraudulent pyramid investment schemes, hyper-inflation, and bank failures.

"We have seen that nothing has worked so far in the mutual fund industry here. The funds have just not attracted the money," says Mr Jarvis. "But our focus will be on corporate clients, developing savings and pensions schemes for them."

While rival fund management groups, such as Credit Suisse and Templeton, have promoted their funds by opening share shops and advertising on billboards and even trams, Fleming Guta wants to target potential customers more directly by exploiting the Russian bank's links with important Moscow-based companies. These include MGTS, the local telephony provider which has 4m customers; Rosno, a big insurance group; and Sistema, which acts as the holding company for the Moscow city administration.

Fleming Guta will try to persuade these companies' employees and customers of the virtues of savings schemes and pension plans and run seminars explaining the attractions of mutual funds.

Jan Hochtritt, marketing manager for Flemings' Russian mutual funds, says Fleming Guta can, in this way, focus on attracting the savings of the newly-emerging middle class, people who earn $1,000 to $2,000 a month and who crave quality western brand names.

"We are trying to market mutual funds as an upmarket product that people will be proud to invest in and to exploit the Flemings name," he says. "We have been around for 125 years, have $110bn of funds under management, have more than 1.5m private clients, and have 72 offices in 42 countries."

Mr Hochtritt concedes it will take time and a demonstrable record of achievement to convince sceptical Russians of the attractions of investing for the long term. Flemings is aiming to attract $5m by the end of the year and up to $50m within three years.

That may be minuscule by international standards, but Mr Hochtritt believes that a pot of gold awaits the fund manager who can devise a successful formula for financial intermediation in the biggest country in the world.

Fearful investors: the collapse of pyramid investment schemes has made Russians wary of handing over cash to institutions Reuters

NEWS DIGEST

BANKING

Pekao shares surge 22% on Warsaw trading debut

Pekao SA, one of Poland's largest banks, saw its shares rise 22 per cent from the initial public offering price to 55 zlotys when they began trading in Warsaw yesterday. The trading debut set the stage for a struggle for control of the bank this autumn, when the government plans to sell a 35 per cent strategic stake.

The government sold 15 per cent of the bank last month, with foreign institutions taking just over one-third of the equity on offer and the remainder being bought by domestic institutional and retail investors. At yesterday's share price Pekao is valued at $2.1bn, which would represent about 12 per cent of the $16.4bn capitalisation of the Warsaw Bourse.

The Pekao IPO drew strong interest from Poland's Bank Handlowy, which applied for twice as many shares on offer. It ended up with a 4.6 per cent stake.
Christopher Bobinski, Warsaw

CINEMAS

UCI plans Polish multiplex

UCI, the international cinema group jointly owned by the Paramount and Universal studios, is set to open its first multiplex cinema in Poland later this month under Multikino, a joint venture with ITI, its local partner.

The planned opening in the western city of Poznan of a new $11m eight-screen cinema, seating 2,300, marks the start of a $110m investment programme which foresees the opening of 10 multiplexes by the UCI/ITI joint venture. UCI has 480 screens in seven countries. **Christopher Bobinski**

PORTUGAL

BPI buys up Banco Universo

Banco Português de Investimento has paid Es8.16bn ($44m) for 100 per cent of Banco Universo, a supermarket-based bank launched last year by Sonae Investimentos, Portugal's biggest retail group. Sonae, seeking a partner with banking expertise, agreed in February to sell 50 per cent of Banco Universo to BPI. But BPI is to assume full control and plans to merge the in-store bank, which has 52 branches, into its own retail banking network, with 438 branches.

BPI is also to pay Es1.4bn for 50 per cent of Crediuniverso, a credit card company owned by Sonae. **Peter Wise, Lisbon**

EGYPT

Mobinile targets 1m clients

Mobinile, the recently privatised Egyptian mobile telephone company, aims to have one million subscribers within three months and to clear a backlog of 30,000 applications in two weeks, Osman Sultan, chairman, said yesterday.

The group, which secured full control of the formerly state-owned Egyptian Mobile Telephone Services company, expects to see the current 90,000 subscribers leap tenfold before a rival company begins operations. Mobinile is a consortium of France Telecom, Motorola, of the US, and Egyptian partner Orascom. A rival company owned by Vodafone, Airtouch, Alkan and EFG-Hermes is expected to launch its service in September. **Mark Huband, Cairo**

LEGAL NOTICE

No. 02974 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
STANDARD FORMS HOLDINGS LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 24 June 1998 confirming the reduction of share capital of the Company from £3,000,000 to £448,395 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 25 June 1998.

Dated 26 June 1998

Frere Cholmeley Bischoff
4 John Carpenter Street
London EC4Y 0NH

Ref: SJH/RZT/SJXM

Solicitors for the above-named Company

The Korea Equity Trust

International Depositary Receipts

Evidencing Certificates in respect of 1,000 Units in the Trust

NOTICE IS HEREBY GIVEN to Unitholders that Korea Equity Trust has declared a dividend in The Republic of Korea amounting to Won 7,000 per Certificate of 1,000 Units, payable on or after July 1,1996.

Accounting date: 31/05/96 Ex-dividend date: 01/06/96

Payments of Coupon No. 6 of the International Depositary Receipts, will be made on or after July 1, 1996 against presentation of the Coupons to the Depositary or to one of the Depositary Agents listed below:

DEPOSITARY

Chase Manhattan Bank Luxembourg S.A.
5 Rue Plaetis, Luxembourg, L-2338 Luxembourg

DEPOSITARY AGENTS

The Chase Manhattan Bank

Trinity Tower	Chase Plaza
9 Thomas More Street	34-35 Chung-dong
London E1 9YT	Choong-ku, Seoul
	Republic of Korea

Chase Manhattan Bank (Switzerland)
63 Rue du Rhône, CH-1204 Geneva, Switzerland

The amount of dollars payable in respect of Coupons presented to an Agent of the Depositary by Close of Business on June 29, 1996 shall be the net proceeds of the sale of the amount of Won for US dollars at the prevailing telegraphic transfer selling rate of US dollars for Won as quoted by a foreign exchange bank in Korea on the day on which the relevant transfer is made.

The dividend proceeds will be distributed to IDR holders in proportion to their respective entitlement and after the deduction of all taxes and fees, charges, duties and expenses of the Depositary.

All Certificate holders are required to submit the name and address of a bank in New York and a US dollar account number for payment, or an address for which payment should be sent by US dollar cheque.

All holders residing in a country having a double taxation treaty with the Republic of Korea may obtain payment at a lower rate of the Korean non-resident withholding tax, on condition they furnish to either the Depositary or through one of the designated Depositary Agents, a certificate showing their residence, together with a copy of the Certificate of Incorporation, or, for individuals, a copy of their passport. These documents are requested by the Korean National Tax Administration Office as evidence of residence.

Without such proof of residence, the full tax rate of 27.50 per cent. Korean non-resident withholding tax will be retained.

Chase Manhattan Bank Luxembourg S.A.
as Depositary

USD 20 000 000 000
EURO MEDIUM TERM NOTE PROGRAMME
OF SOCIETE GENERALE,
SGA SOCIETE GENERALE ACCEPTANCE N.V.
AND SOCIETE GENERALE AUSTRALIA LIMITED

SERIES 47/93-12, TR1
SOCIETE GENERALE
USD 200 000 000 FLOATING RATE NOTES DUE DECEMBER 2008
ISIN CODE : XS0047942577

For the period June 30, 1998 to September 30, 1998
the new rate has been fixed at 6.1875 % P.A.
Next payment date : September 30, 1998
Coupon nr : 19
Amount :
USD 158.13 for the denomination of USD 10 000
USD 1 581.25 for the denomination of USD 100 000

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE BANK & TRUST S.A.
11-13, avenue Emile Reuter
L-2420 LUXEMBOURG

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COMPANIES & FINANCE: EUROPE

SHIPPING GROUPS FAIL TO REACH AGREEMENT ON PROPOSED SHIPS-FOR-SHARES TAKEOVER

Frontline abandons talks with ICB

By Tim Burt in Stockholm

Frontline, the Bermuda-based tanker operator, yesterday abandoned talks aimed at ending its long-running ownership battle with ICB Shipping, of Sweden.

The tanker group – which launched a SKr3.22bn ($404m) hostile bid for ICB last September – said the two companies had failed to reach agreement on a new offer involving an innovative ships-for-shares transaction.

Although Frontline has already acquired 51.7 per cent of ICB's capital, its takeover bid has been scuppered by its failure to secure a majority of the Swedish group's voting rights, and by ICB's announcement of a $309m agreed merger with Astro Tankers, of Greece.

Earlier this year, Frontline dropped its SKr115-a-share cash offer for ICB, but launched a lawsuit claiming that the proposed merger with Astro was illegal. Since then, the two sides have in a deadlock.

In an attempt to break the impasse, Frontline last month offered to swap its shares for part of ICB's tanker fleet. The deal – involving four of ICB's 11 wholly owned tankers – would then allow ICB to complete the merger with Astro, owned by the Angelicoussis shipping family.

"We wanted to exchange our shares for assets in the form of ships and a cash payment," said Tom Jebsen, chief financial officer at Frontline.

Officials close to the transaction – described as "financially intricate" – said it also envisaged most of Frontline's shares ending up in the hands of the Angelicoussis family.

Yesterday, the Oslo-quoted company said it was terminating the talks and would block any further attempts by ICB and Astro to complete their proposed merger.

Ola Lorentzon, ICB chief executive, blamed the breakdown on disagreements over asset valuations and Frontline's imposition of a deadline by which to finalise a deal. "We had talks with Frontline which were friendly, but they decided we could not deliver a result in time," he said.

The negotiations foundered over matching asset valuations for the ships Frontline wanted against the value of ICB's shares. Frontline acquired its stake in ICB initially through a SKr110.20 cash and paper offer, which it subsequently replaced with a SKr115-a-share all-cash bid for the most commonly traded B-shares.

In recent months, however, ICB's shares have fallen sharply and are currently trading at a significant discount to net asset values. The B-shares yesterday closed at SKr72, up SKr2 on the day. Frontline's share price – readjusted for a recent share split – closed yesterday at NKr16.30, against about NKr36 last autumn.

Prada chief seen raising funds to lift Gucci stake

By Andrew Edgecliffe-Johnson and Alice Rawsthorn

Prada, the Italian fashion group which recently acquired 9.5 per cent of its arch-rival Gucci, is understood to be in discussions with a number of banks to raise at least $100m of junk bond finance.

Capital markets officials said Patrizio Bertelli, Prada's president and the husband of Miuccia Prada, its chief designer, had approached several banks specialising in high-yield bonds.

Prada, which has already spent $240m on secretly buying Gucci's shares, declined to comment. The privately owned company financed its initial investment in Gucci with the proceeds of a L250bn ($318m) bond issue staged this spring. That issue was heavily oversubscribed, with investors applying for L800bn worth.

Mr Bertelli needs to raise additional capital to increase his holding. So far, his public comments about his plans have been ambiguous, but analysts are convinced he hopes to exercise strategic control over Gucci.

Edouard de Boisgelin, luxury goods analyst at Merrill Lynch in London, estimates a bidder would have to offer about $70 for each Gucci share, valuing the group at $4bn.

Prada is thought unlikely to be able to pay $4bn for Gucci. It is the smaller of the two companies, with pre-tax profits of $130m on turnover of $674m last year, when the comparable figures for Gucci were $175.5m and $975.4m respectively.

However, Prada might mount a joint bid for control with friendly investors, possibly a larger Italian group such as HdP, the industrial conglomerate which acquired Valentino, the Rome fashion house, earlier this year.

Prada would require additional capital to participate in a joint bid. Mr Bertelli is understood to have told banks he is interested in raising at least $100m. With that he could buy nearly 3.3 per cent of Gucci on yesterday's share price, which was down $1/8 to $51 3/4 in New York midday trading.

At its annual general meeting in Amsterdam last week, Gucci told shareholders it had not discussed Prada's plans with Mr Bertelli or any of his executives. Gucci's supervisory board also said in a statement it was "reviewing all strategic alternatives".

Magna seeks to buy out Steyr minorities

By William Hall in Zurich

Frank Stronach, the Austro-Canadian entrepreneur, has launched a Sch1.8bn ($102m) bid to buy out the minority shareholders of Steyr-Daimler-Puch (SPD), the Austrian vehicle manufacturer, and has promised to refloat the company next year.

Magna International, Mr Stronach's quoted Canadian company, has offered to pay Sch380 a share for the 33.2 per cent of SPD which it does not own.

SPD's shares were suspended at Sch348 ahead of the announcement and the offer is 18 per cent above the price Magna paid when it bought its Sch4bn controlling stake from Creditanstalt, the Austrian bank, in March.

Mr Stronach's latest bid is still well below the Sch494 level which the shares reached earlier this year, when rival bidders showed interest in acquiring SPD, which assembles cars, minivans and off-road vehicles for Chrysler and Daimler-Benz. It is also only marginally higher than Magna's initial bid of Sch365 a share which was later revised downwards.

Mr Stronach, who was born in Austria, moved his company's European headquarters to Vienna in the early 1990s and has made several high-profile investments in Austria.

Magna, one of the world's biggest car parts manufacturers, employs 2,000 in Austria and has been held up as an ideal partner for SPD, which is keen to strengthen its position in the world's automotive industry.

However, Mr Stronach's initial bid caused controversy because some analysts felt that SPD was being sold at too low a price in order to retain its Austrian identity.

Mr Stronach had committed himself to making a "fair offer" to minority shareholders.

The new offer values SPD at just over 12 times estimated 1998 earnings, which compares with a multiple of 15 times for the Austrian stock market. KPMG and Warburg Dillon Read have described the latest offer as fair.

Mr Stronach has yet to unveil his strategy for SPD. Options include selling Magna's 50 per cent stake in SDP Fahrzeugtechnik, which assembles Chrysler vans, to Chrysler, its joint venture partner, and selling SPD's tank building subsidiary.

Ericsson to launch 'world phone'

By Greg McIvor in Stockholm

Mobile phone users who encounter frustration when their handsets fail to work on the other side of the Atlantic may soon have a solution to their troubles.

A new "world phone" allowing subscribers to roam between Europe, North America and beyond is to be launched next year by Ericsson, the Swedish telecommunications group.

Ericsson, the third-largest supplier of handsets behind Motorola of the US and Finland's Nokia, said yesterday it was planning to launch the industry's first multi-standard mobile phone. It said the new phone would allow users to make calls from most parts of the world covered by mobile phone networks, except Japan.

It predicted the handset – expected to have the same weight and size as Ericsson's current GF/CF 788 range – would grab 5 per cent of the world market within two years of launch.

Analysts said Ericsson's ability to cram several wireless phone standards into a handset represented a significant technological advance.

"It is impressive. It is the nearest you can get to a satellite phone," said one London-based telecoms specialist.

Dual-mode handsets have been on the market for some time. However, the Ericsson handset would be the first that incorporates multiple international standards.

The new phone will be compatible with the two most used frequencies: GSM, the world's most popular cellular standard, and two frequencies of D-AMPS, the biggest US digital system. It would also conform to operate in traditional analogue AMPS networks, which remain widely used in the US. Together, these standards have more than 175m subscribers, corresponding to more than 80 per cent of the global wireless phone market.

Industry experts said the new phone's success would depend on the willingness of a relatively small group of consumers – primarily international business travellers – to pay a premium for it.

Yrjö Neuvo, a senior vice president at Nokia Mobile Phones, said: "This is a logical evolution from a technological point of view." He declined to say whether Nokia had any plans to launch a rival product.

NCM plans foreign expansion

By Gordon Cramb in Amsterdam

NCM, the Dutch export credit insurer, is targeting expansion in the US as well as Germany and Spain – drawing from the triple A rated strength of Swiss Reinsurance, which yesterday gained a majority 85.6 per cent stake in the company.

Maarten Hulshoff, NCM chairman, said in an interview: "These three markets are key to us," as part of a growth strategy agreed with its new parent.

The company is valued at Fl 761m ($372m) under the deal it struck in March with Swiss Re, then its third largest shareholder, after deciding that it needed stronger financial backing.

NCM covered shipments worth Fl 254bn last year; its staff processes 4,000 limit requests a day from exporters seeking cover; and its database holds credit details on 7m companies worldwide.

Some 60 per cent of NCM's business is drawn from customers outside the Netherlands, and the institution was the first of its peers to expand abroad through the 1991 takeover of the short-term business of Britain's Export Credit Guarantee Department.

Last year it acquired EKR, a similar operation in Denmark.

ABN Amro and ING, the two biggest Dutch financial groups, have in recent years between them held a majority of NCM shares.

They are reducing this holding to 5 per cent each, after NCM ruled them out as candidate owners.

"About 65 per cent of our business in the Netherlands is bank-brokered," said Mr Hulshoff. Ownership by either Dutch group would make it difficult to sell its policies through the channels of other domestic banks.

Swiss Re's top-flight credit standing would assist NCM's ambitions in the US, where the sector providing export cover is less developed than in Europe, but where lenders are more conscious of debt ratings.

Customers would be more easily able to raise finance for shipments covered by an AAA-backed policy.

Mr Hulshoff wants to add Spain to the 11 countries where it currently has an operational centre, and step up activity in Germany, because of the potential offered by the single currency.

At the same time, the world is becoming more frightening, he implies. "The risk profile of the business is changing." Risks are being assessed more by trade sector than individual shipment, and are globalising. The Asian economic shake-out required it to dispatch a rapid response force to the region.

Beyond that lay the millennium problem affecting computers, he said, as well as uncertainties in global food supply – through genetic engineering, outbreaks along the lines of Britain's BSE epidemic, and disruption to weather patterns.

The takeover gives Swiss Re a channel into the credit insurance market, also allowing it to keep in touch with developments there which could affect other parts of its business.

NCM has spent the last few years integrating its five information technology systems and producing a common insurance policy.

Response times to customer requests have come down accordingly, although Mr Hulshoff has acknowledged that not all were happy while the changes were in train.

The company had premium income from private business last year of Fl 722m, with a further Fl 101m on behalf of governments. Net profits were Fl 30.2m.

Swiss Re has bought out around 15 other shareholders including Rabobank, Aegon and Munich Re. The remaining 4.4 per cent is held by Winterthur, part of Credit Suisse.

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CEI Citicorp undergoes rapid transformation to focus on media

Argentine group disposes of its rag-bag of privatised interests in favour of telecoms and cable TV, writes **Ken Warn**

Richard Handley: 'Control is not the point'

Few companies can have been through a transformation quite so dramatic as Argentina's CEI Citicorp Holdings.

Once a holding company for a decidedly mixed bag of former state-owned assets, and forced to fend off shareholders' complaints about management inaction, CEI has rapidly become the country's dominant media and telecommunications group.

Created by Citibank in 1987 as an improvised vehicle to convert $1bn of Argentine sovereign debt into equity, CEI participated in a string of privatisations, buying stakes in everything from telecoms, electricity and gas utilities, to speciality steel production.

In a process culminating this year, CEI began divesting its non-core assets to focus on telecoms and cable TV. "It's amazing what we have been able to build in one year," says Richard Handley, chairman and chief executive. "Sometimes something like this can take 10 years."

But the real prize, CEI believes, will follow deregulation of the telecoms market in 1999. Along with Spain's Telefónica Internacional, CEI controls Telefónica de Argentina, the basic telephony provider for the south of the country created at the break-up of state telecoms monopoly Entel.

With deregulation, CEI and Telefónica will be able to offer nationwide domestic, long-distance and international telephony, plus cable TV, audio and internet access, all down the same wire.

Tempted by this prospect, Texas-based private equity firm Hicks Muse Tate & Furst agreed in May to pay $700m for a stake of about 30 per cent in CEI, in Latin America's biggest private equity deal to date.

Argentina has the region's most developed cable TV market, with household penetration of more than 50 per cent. Market leader Cablevisión, 66.6 per cent owned by CEI and Telefónica, has more than 1.5m subscribers and more than 30 per cent of the market.

CEI's other rapidly acquired media businesses embrace television production, a stake in top-rated broadcast television station Telefé, radio and publishing.

Building this empire has not been without problems. Last year CEI fell out with partner Grupo Clarín, long unrivalled as the country's leading media group, over strategy. Clarín did not share CEI's willingness to take minority stakes in partner companies.

"Control is not the point," says Mr Handley. "The point is to ally yourself with people who make you bigger and better."

The divorce leaves the cable industry dominated by CEI's Cablevisión and Clarín's Multicanal, which has a 28 per cent market share. This has led to accusations that the industry has become an effective duopoly. "They have finished creating the cartel, now they want to squeeze the lemon," says Christopher Ecclestone of brokers Interacciones.

> **The split from CEI has created the possibility Clarín will join forces with Telecom Argentina and duplicate CEI's strategy**

CEI rejects these accusations, saying there is fiercer competition in the industry than ever before, although among a smaller group of companies.

There are still 500 small-scale cable operators in the local market, and about 1.5m subscriptions up for grabs, CEI believes.

The split from CEI has also created the possibility that Clarín will join forces with Telecom Argentina, which holds the telephone franchise for the north of the country, and duplicate CEI's strategy of expanding into rivals' territory by offering bundled cable TV and telecoms packages from 1999. An alliance with a big US telecoms group would be an alternative.

Argentine commentators habitually cast the rivalry between CEI and Clarín in a political light, with Clarín portrayed as a bitter foe of President Carlos Menem, and CEI as more government-friendly.

Mr Handley does not disguise his admiration for Mr Menem and his successful push to sell off state industries. "The guy is unique, he has created a revolution in this country," he says. "But our company is not and never will be political. Apart from anything else, the shareholders would not put up with it."

Not everything has gone CEI's way. Earlier last month it was forced to cancel a $300m share offering amid international market turmoil. The issue was pulled just days before the end of a three-week roadshow. Raising an equivalent sum through the bond markets also looks difficult in the current climate.

Much of this money was destined to reduce short-term debt, which stands at about $260m. However, CEI says it still has $150m cash which it will use partly to reduce that debt and partly to push for more cable business, including in neighbouring Brazil. Longer-term debt, in the form of 8-20 year bonds, totals $580m.

CEI's rapid media growth has also attracted the attention of opposition deputies. A win by the opposition Alliance in next year's presidential elections could bring increased regulatory pressure to bear on several industries, including cable TV. Argentina also has a series of moribund regulations on media ownership which could be reactivated in a more hostile political climate.

Neither this prospect nor the slowdown in Argentina's growth rate from last year's 8.4 per cent appears to worry Mr Handley. Slower growth among telephone and cable subscribers can be met with more efficiencies to boost margins, he says.

NEWS DIGEST

FORESTRY

SCA buys Svetogorsk tissue mill from Tetra

SCA, the Swedish forest products group, is augmenting its Russian operations by acquiring the Svetogorsk tissue mill near St Petersburg for SKr200m ($25m) from Tetra Laval, the privately-owned Swedish packaging group.

The deal follows Tetra's sale of Svetogorsk's pulp, paper and board business to International Paper of the US last week for an undisclosed sum, bringing to an end a costly adventure. After acquiring control of the plant, Tetra needed to spend heavily to upgrade outdated machinery.

Jörgen Haglind, a senior official at Tetra Pak, Tetra Laval's packaging arm, acknowledged that only a small part of the company's $127m total investment in Svetogorsk would be recouped. However, Tetra, which sells liquid beverage packages in Russia, said it would continue to purchase board for its products from Svetogorsk. Svetogorsk Tissue had output last year of 19,200 tonnes, corresponding to 20 per cent of the Russian market. SCA said current capacity was 30,000 tonnes, which could be increased to 40,000 tonnes.

SCA expects its sales of hygiene products in Russia to reach SKr450m this year, excluding Svetogorsk. It intended to use the new facility as a bridgehead for expansion into the Baltic states and Belarus. **Greg McIvor, Stockholm**

AUTOMOTIVE INDUSTRY

Volvo reshapes Russian unit

Volvo, the Swedish automotive group, is to restructure its Russian activities by bringing all operations under the umbrella of a new company, ZAO Volvo Vostok. Volvo said the company, to be based in Moscow, would co-ordinate all Volvo's operations in Russia. **Greg McIvor**

ONLINE SERVICES

Cegetel in French venture

Cegetel, the alliance between British Telecommunications and Compagnie Générale des Eaux in France, has finalised an agreement with America Online, Bertelsmann of Germany and the French group Canal Plus, to form a joint venture to provide online services in France.

The deal was first announced in January this year. Cegetel will have a 36.7 per cent stake in the venture with Canal Plus taking 18.3 per cent. AOL and Bertelsmann will have a combined stake of 45 per cent. The venture will bring together AOL France and Compuserve France and will have 285,000 customers, just ahead of France Telecom's Wanadoo with 280,000. **Alan Cane**

TOBACCO

Tabacalera builds US business

Spain's Tabacalera has strengthened its cigar business in the US by buying a new plant in the Dominican Republic. The plant will make the upmarket Romeo y Julieta brand, which the group acquired last year when it bought Max Rohr Importers, a top California distributor of quality cigars.

Tabacalera Cigars International will pay Tabacalera Nacional Dominicana about $6m for the plant, which will eventually have capacity to produce 6m cigars a year. It is the first acquisition by the group since it was fully privatised in April. **Tom Burns, Madrid**

PENSION FUNDS

Aegon strengthens Banamex link

Aegon, the Dutch insurance group, has extended its strategic alliance with Banamex, Mexico's largest bank, by acquiring a 48 per cent stake in Banamex's pension fund management business for $264m. Aegon and Banamex have been partners in bancassurance since 1995. The Dutch group's investment in Afore Banamex comes only a year after Mexico reformed its social security system and introduced privately-managed individual retirement schemes.

Aegon's investment was welcomed by Banamex, due to the new industry's high start-up costs and strong competition among Mexico's 17 Afores, or retirement fund management companies. Aegon, which owns Scottish Equitable in the UK and is a leader in life insurance and retirement products in the US, is expected to contribute its expertise to Banamex's nascent pension fund business.

In addition to Aegon, international financial groups such as ING of the Netherlands, Santander of Spain, and Assicurazione Generali of Italy have invested in Mexican Afores. The system is undergoing a period of consolidation as stronger pension management groups buy out those who were less successful in signing up clients.
Leslie Crawford, Mexico City

MUTUAL FUNDS OFFERS FOR FRENCH BANK'S US BUSINESS EXPECTED TO BE IN THE RANGE OF $250m-$325m

Bidders line up for SocGen unit

By William Lewis and John Authers in New York

Final bids for the US mutual fund business of Société Générale, the French bank, are due on Tuesday and expected to be in the range of $250m-$325m, according to people close to the negotiations.

Earlier this year, SocGen appointed Goldman Sachs, the US investment bank, to help advise on the sell-off of the business, which has about $5.5bn under management.

People close to the talks say a number of financial services groups – all medium-sized operators in the US mutual-fund business but seeking to expand – have shown interest and are willing to pay in cash.

They include Pimco, the Los Angeles-based retail and wholesale fund manager, John Hancock Funds, the aggressively expanding mutual-fund arm of the Boston-based mutual life insurer which recently announced its intention to float, and Seligman Financial Services, the New York-based fund manager.

John Nuveen, the Chicago-based fund manager which has traditionally specialised in bond funds, is also thought to have shown interest. In addition, First Union, the North Carolina-based bank which has acquired several independent fund managers to boost income it gains from fees rather than loan interest, is said to have entered into discussions with SocGen.

SocGen's US mutual fund business is managed and 19.9 per cent owned by Jean-Marie Eveillard. While Mr Eveillard is unable to block a sale, fund management deals are typically completed only with the approval of the target company's management.

The decision to sell the business was taken by SocGen, which owns 80.1 per cent, not by Mr Eveillard. He declined to comment yesterday but is thought to support the decision to sell.

The business is best known for two of its funds – Sogen International, which has $3.7bn under management, and Sogen Overseas, which has $960m under management.

SocGen is keen to sell the business to concentrate on asset management for institutional investors. In addition, other recent asset management sell-offs have shown how strong prices are at the moment. Fund management companies historically sell for about 2 per cent of funds under management, but analysts say that some deals are now running at up to 4 per cent.

Charge will put Compaq in red

By Paul Taylor

Compaq Computer will take a $4.7bn charge against its 1998 results in connection with its acquisition of Digital Equipment, Eckhard Pfeiffer, chief executive, said yesterday.

Mr Pfeiffer acknowledged that Compaq – now the second largest computer group in the world, behind International Business Machines – would report a net loss for the current year.

The charge would include process technology write-offs totalling $3bn, and $1.7bn to cover the costs of a restructuring programme involving the loss of an estimated 17,000 jobs, announced earlier this week.

"Given the magnitude of the restructuring charge we are taking, it will make the year negative, but you have to look at the difference between net and operating results," Mr Pfeiffer said.

Andreas Barth, Compaq's European chief executive, added that the company expected to complete the restructuring of its operations in Europe this year.

Asked whether there could be restructuring charges in 1999 resulting from the planned job losses, Mr Barth said: "That is not the plan. It has all been accrued this year."

Compaq completed its $8.4bn acquisition of Digital earlier this month, part of its strategy to become a full-range computer group following the $4.1bn purchase of Tandem Computers last summer. The company said at the time that it expected to break-even in the second quarter and to face a "transitional" third quarter before Digital started adding to earnings in the fourth.

Yesterday, Mr Pfeiffer said the inventory problems which plagued Compaq earlier this year and led to a surprise first-quarter loss had cleared.

"We will be at the lowest level [of inventory] we can remember for years at the end of the second quarter [yesterday]," he said.

Mr Pfeiffer added that the group's new build-to-order/build-to-configure manufacturing strategy was "now kicking in".

Robot army goes to war for 'share of stomach'

Coca-Cola spent $5bn on marketing last year in its battle for volume and profits growth, writes **Daniel Bögler**

Doug Ivester's enemy is tap water. Coca-Cola's new chairman has his sights set not on the market for carbonated soft drinks, where Coke already holds a commanding 50 per cent share worldwide, but on the much larger market comprising beverages of every kind – or as he bluntly puts it "share of stomach".

Measured on that basis, Coke has only a 2 per cent global market share. The point is neatly made on the cover of its 1997 annual report – the first under Mr Ivester's chairmanship – which features 47 empty Coke bottles and only one full one. Around the world, tea, coffee, alcohol and above all, plain old tap water, dare – as yet – to be more popular.

Setting this type of aspirational goal and then driving, in all earnestness, towards it, is one of the strengths of Coca-Cola.

At last week's biennial analysts' meeting at the soft drink giant's Atlanta headquarters, Mr Ivester presented Coke – 112 years old and, with a market capitalisation of $210bn, America's third most valuable company – as "the perfect growth company and one that is still in its infancy".

That message was reinforced by Coke's assembled senior management: its chief financial and marketing officers and the six divisional and geographic heads. Almost to a man they are Coke veterans of 20 years or more and imbued with the company's robotic mindset.

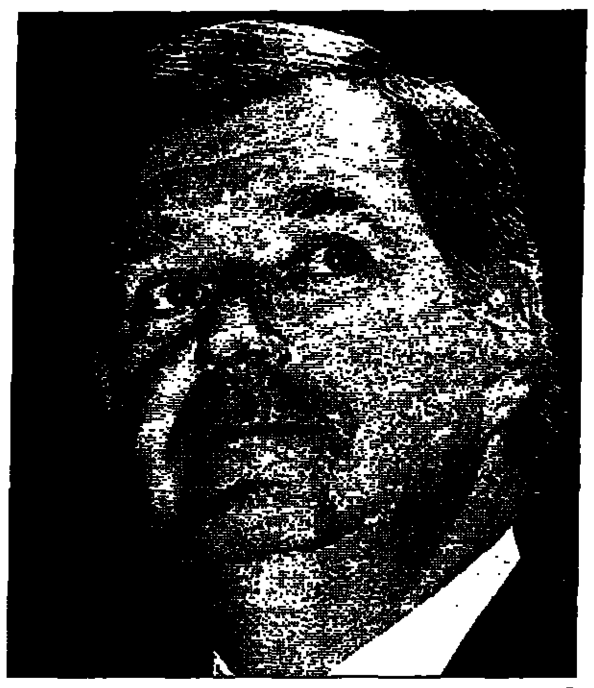
The 500 brokers and fund managers who braved Atlanta's summer heat and eight hours of presentations were treated to few laughs. But they received an endlessly repeated and thus reassuring message that Coke's legions across 200 countries were battling in the cause of enhancing shareholder value.

Much of the message, unfortunately, was coded in the kind of jargon beloved of marketing men – and it seems everyone at Coke is a marketing man. Thus Ralph Cooper, head of Minute Maid, Coke's juice division, talked enthusiastically of "owning the breakfast beverage occasion", when he meant to say that he wants people to drink more of his orange juice in the morning.

Conference participants were treated to "Coca-Cola breaks" rather than coffee or tea breaks. And chief marketing officer Charlie Frenette made much of the fact that the group has switched its marketing strategy from the "three As" – Availability, Affordability and Acceptability – to the "three Ps" – Pervasiveness, Price/Value and Preference. It probably takes a Coke aficionado to appreciate the difference.

Behind the catch-phrases, however, stands an impressive organisation. The sheer scale and pervasiveness of Coke's marketing effort is hard to believe.

In 1997 the group spent $5bn on marketing, and its bottlers countless millions more, to build its four core brands – Coke, Diet Coke, Fanta and Sprite – as well as 160 local ones.



Douglas Ivester: Coca-Cola is 'the perfect growth company' AP

Over the past few years it has hired hundreds of marketing people, consistently investing ahead of demand according to Mr Ivester, and with the sole purpose of driving growth.

As a result, Coke's volumes are rising at 7-8 per cent a year – and 9-10 per cent in the latest quarter – against 1 per cent for its chief rival PepsiCo.

And those new faces have brought plenty of ideas. Responding to changing US shopping habits, North American president Jack Stahl says Coke has switched from displaying its products just along a single supermarket shelf to putting cold cans throughout the store and smaller bottles into the ready meals section.

For the World Cup, for which the group is an official sponsor, Coke measured traffic flows around the Stade de France in St Denis and set up 85 "Red Zones" where thirsty fans were most likely to get bogged down and find themselves in need of ice-cold refreshment.

Along with marketing, Coke's success rests on its total system approach. The group sits at the heart of a network of "anchor" bottlers and franchise bottlers, in many of which it owns significant equity stakes. That produces a multiplier effect. Where Coke spent $1bn on capital equipment last year, the whole system spent $5bn. Its bottlers own over 1,000 plants and 150,000 vehicles worldwide.

And with Coke sharing its business plans, its thinking and even key executives, the two parts of the system feed off each other's growth.

In the UK, for instance, Coca-Cola Enterprises, the original and largest anchor bottler, took over the territory from Cadbury Schweppes at Coke's behest. Since then it has beefed up the street-level salesforce from nothing to 900 people and is currently installing one piece of cold drink equipment every 3 minutes.

In Mexico, another anchor bottler, Panamco, has put Coke coolers into taxis, persuaded shop owners to deliver Coke on red bicycles and will even put a vending machine outside your house if you are holding a party.

Is there anywhere Coke does not go? Only where it is illegal, says Mr Ivester. But he points out that the minute the US lifted sanctions against Vietnam, aircraft full of Coke, refrigerators and signage lifted off the tarmac and the company was in business in Vietnam within 24 hours.

In the long run, tap water does not stand a chance.

NEWS DIGEST

OIL AND GAS

Devon Energy to buy Canadian group

Devon Energy, the US oil and natural gas company, is the latest US producer to take advantage of Canada's weak dollar and is to acquire Canada's Northstar Energy for C$830m (US$564m) in stock and the assumption of C$455m in debt. Devon should also benefit from an expected rise in Canadian natural gas prices due to the upcoming expansion in pipeline capacity to US markets.

The transaction, billed as a merger, will create one of North America's 15 largest independent oil and gas producers with proven reserves of 1,200bn cu ft of gas and 117m barrels of oil, roughly equally distributed in the two countries. Valued at about US$1.7bn, it will have separate operating teams in the US and Canada, while continuing to take advantage of market opportunities in both countries. Devon's natural gas interests in Canada will be folded into Northstar's operations.
Scott Morrison, Toronto

INFORMATION TECHNOLOGY

AOL sells prime internet space

Three brokerages have agreed to pay America Online a total of $75m over the next two years to be prominently featured by the online service, which has more than 11m subscribers. AOL said the deal with DLJDirect, E*Trade and Waterhouse Securities was one of cyberspace's biggest marketing agreements. It will place the three "premier brokerages" in a new section of AOL's personal finance section – the most frequently visited part of AOL. Each brokerage will pay AOL $12.5m a year for two years. Jupiter Communications, the market research group, predicts that by 2002 the number of online trading accounts will swell from today's 3.5m to 18m, while analysts at Forrester Research forecast that by 2002 one out of five US households will be investing online, and online accounts will grow to 4.6 per cent of all retail investment assets. **Louise Kehoe, San Francisco**

PHARMACEUTICALS

Merck wins migraine approval

US pharmaceuticals group Merck yesterday won approval from the Food & Drug Administration for Maxalt, a new migraine drug which is expected eventually to generate annual sales of about $300m. More than 24m Americans, mostly women, are afflicted by migraines. Up to 10 per cent of the world population may suffer such attacks. Exactly what triggers the headaches is still unknown.

Earlier this year Bristol-Myers Squibb gained FDA approval to sell its Excedrin pain reliever as the first over-the-counter medicine for migraines. Pfizer and SmithKline Beecham are also developing treatments for the ailment. Maxalt is expected to challenge Glaxo Wellcome's blockbuster migraine drug Imitrex. ***Victoria Griffith, Boston***

FUND MANAGEMENT

Caspian chief moves to Optima

Christopher Heath, founder of Caspian Securities, the emerging markets investment bank which last week gave up its fight for survival, is joining a leading hedge fund manager. Mr Heath has become a senior partner at Bermuda-registered Optima Fund Management, with nearly $1bn under management. In his New York-based job, Mr Heath will help to develop and market international products for Optima, which has 12 multi-manager funds and 10 single-management funds. **Clay Harris**

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RETAILERS JAPANESE INVESTMENT BANK ADDS TO COLLECTION OF UK ASSETS

Nomura in agreed £980m bid for Thorn

By Simon Davies

Nomura International has made an agreed £980m ($1.6bn) bid for Thorn, the rental group that owns Radio Rentals in the UK. Thorn will be added to the Japanese investment bank's growing collection of UK assets, which include the William Hill betting chain and the largest independent pub portfolio.

The announcement puts an end to almost two years of unhappy independence for Thorn's rentals business, which demerged the EMI music business in August 1996, and has seen its shares collapse after adverse trading statements and legal troubles in the US.

This deal will mean that the Principal Finance Group at Nomura will have invested nearly $14bn on acquisitions since it was set up by Guy Hands two-and-a-half years ago. It now employs 14,000.

Nomura has fully underwritten the offer of 250p a share, which compares with the previous closing price of 210½p and is a 55 per cent premium to the share price in April, when a bid approach was announced.

Emma Burdett, retail analyst at ABN Amro, said: "This is the best news that shareholders could have hoped for."

Thorn's largest shareholder, fund management group PDFM, has sold half of its 19 per cent holding to Nomura at the offer price. It has agreed to accept the offer for its remaining shares, unless a competing bid is made at 300p or more. American investors own another 35 per cent.

Analysts *said that it was* possible there could be a counter-bid from a financial buyer, but viewed this as unlikely.

Richard Golding, director of Nomura's Principal Finance Group, said: "It is a mature business with strong cashflow and a strong cradle-to-grave customer base. It is a natural for various types of refinancing."

This could include securitising the business, issuing bonds backed by Thorn's *rental cashflows*. But Nomura is expected to refloat the UK rentals business on the stock market in two to three years time, after radical restructuring.

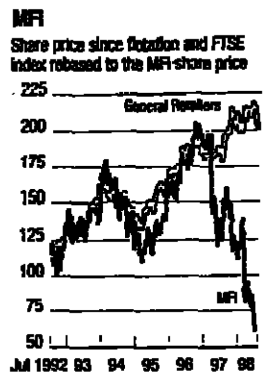
Nomura will keep the existing management and its strategy of selling off international businesses, focusing on the core Radio Rentals chain, its direct rental sales business DER Direct, and its downmarket *rental chain*, Crazy George.

Thorn was built into one *of Britain's* great consumer electronics groups by Sir Jules Thorn, with businesses ranging from light bulbs to television manufacturing and semiconductors. The Radio Rentals chain was acquired in 1968.

COMMENT

MFI

If MFI's management thought they would get some sympathy for operating their furniture business in a tough market, they were wrong. Indeed, their long list of measures to revive profit margins demonstrates that the group's fortune lies in its own hands. Like other vendors of furniture and carpets, they – unconvincingly – played down last year's fillip to sales from their customers' building society windfalls. But the truth is they were cushioned, and now they are exposed. Better retailers, such as Allders and John Lewis, have shown them up. MFI's plans to cut out peripheral product lines, rationalise distribution and cut jobs look sensible. *It is only a pity it has taken a crisis to* institute them. Although the £30m costs could leave profits below £20m this year, the £25m savings ought to ensure a far better return on £800m sales from next year. The group's weedy market value of £375m should shout recovery potential. But MFI's patchy record invites caution.



Thorn

Thorn's sale to Nomura International is the climax to a short and sweet salvage operation. The 250p-a-share price is about 80 per cent above last autumn's low, but still well short of the 400p-plus at which it demerged from EMI two years ago. Steven Marshall, promoted to chief executive in February, has done a classic break-up job. The biggest coup was securing the sale of the litigation-ridden US business for nearly £550m. At one times sales and nine times operating profits, this was much better than expected. This deal is now handed on to Nomura, which is paying nearly £1.2bn for the whole, including £190m debt.

This means the less problematic parts of the business have been sold for less than 90 per cent of sales. Thorn's sorry post-demerger history seems to have led the biggest shareholder, PDFM, to plump for the certainty of a respectable exit. Assuming Nomura sells on other non-UK businesses, it will be left with a revamped core that made £47m operating profits last year *on £450m sales*.

The Thorn/EMI demerger has been a useful, if painful, antidote to the idea that demergers must be a good thing. Thorn may have been properly refocused. But EMI shareholders are still forlornly waiting for a bid to crystallise its value.

Coats names insider as clothing chief

By Arkady Ostrovsky

Coats Viyella, the textile group soon to be split into two, yesterday named an insider to run its clothing business after a seven-month search failed to yield a suitable outside candidate.

The group had been looking for a chief executive for the division since December, when it issued a profits warning and announced plans to split Viyella – which makes clothes for Marks and Spencer and includes the Jaeger, Viyella and Dorma bedwear brands – from the Coats threads and engineering businesses.

Sir David Alliance, chairman, said the company had appointed Mike Hartley, the former head of the loss-making contract clothing business, because of his "proven management skills and relevant industry experience".

But most City analysts were disappointed by the choice. They said the company's failure to attract an outsider reflected its troubled state. "Being appointed to the company is like getting a hospital pass," one analyst said.

News of Mr Hartley's appointment came as the company issued a trading statement saying that trading for the year to date was behind the same period last year.

Coats Viyella blamed the strong pound and weak demand in the high street.

The shares fell 1p to 74p.

Michael Ost, group chief executive, said Mr Hartley "did an outstanding job" in turning the contract clothing division round and added that he expected it to move into profit by the end of the current year.

Mr Hartley, 49, had five years' *of management experience* with M&S, Viyella's chief customer. M&S is understood to have been partly responsible for last year's departure of Neville Bain, the former chief executive.

Robin Anson, an independent textile analyst, said: "There is a lot to be said for appointing an insider. Operating Viyella requires specialised knowledge of the industry and good relationships with retailers."

Sir David Alliance: appointment made on skills and experience — Brendan Corr

Safeway confirms recovery on track

By Robert Wright

Safeway, the food retailer, yesterday confirmed its continuing recovery from a year of problems, reporting 6.4 per cent growth in sales on a like-for-like basis in the first 13 weeks of the year to March 31 1999.

However, the better-than-expected figures received a lukewarm reception from retailing analysts, who are anxious about the costs incurred by the UK's fourth largest food retailer in gaining the sales.

David Webster, chairman, told yesterday's annual meeting that total sales rose *by 9.4 per cent, against the* 6.4 per cent rise at existing stores.

He said: "The progressive improvement in Safeway's sales performance, which has now been sustained for more than six months, confirms that we have successfully tackled the issues we faced in the second half of last year."

Many analysts suggested the recovery was related to the £20m ($33.4m) relaunch of Safeway's ABC loyalty card. Shoppers who buy large quantities from Safeway now receive triple points – an effort to improve *the low value of average purchases* at Safeway compared with other food retailers.

However, *Safeway said the* improvement had started before the ABC relaunch and was linked to other improvements such as better stock availability.

Paul Smiddy, food retail analyst at Credit Lyonnais Laing, said of the figures: "I thought it was slightly better than the market was expecting and slightly better than the management were expecting. "But the issue, as ever at Safeway is the costs the management are throwing at the business."

Most analysts left their pre-tax profit forecasts unchanged at £375m, the level achieved in the year to March 1998.

Lex, Page 20

US offer values WMI at £1.3bn

By Virginia Marsh

Waste Management, the largest waste disposal group in the US, is offering to buy out minority shareholders in its UK-based international subsidiary at a nearly 40 per cent premium.

The US group, which is in the process of merging with smaller rival USA Waste, is offering 345p a share cash, valuing Waste Management International at £1.29bn ($2.15bn).

The Chicago-based company already holds an 80 per cent stake in WMI, which is quoted in London. The price is a premium of 39 per cent over the shares' closing price of 247½p on Friday. Yesterday they rose 64p to 329p.

Waste Management's treatment of the minority shareholders contrasts with that of Emerson Electric of the US which suggested earlier this year it might buy out minority shareholders in Astec, its UK subsidiary, without paying a premium.

WMI, whose independent directors were advised by KPMG, the accountants, made pre-tax profits of £129.1m, before exceptionals, on sales of £1.05bn last year.

One of WMI's main businesses is a 50 per cent stake in UK Waste, a joint venture with Wessex Water, the UK water company.

Sun Life of Canada to increase pension charge

By Jean Eaglesham

Sun Life of Canada, the mutual insurer that plans to float next year, has admitted it expects "significantly to increase" provisions for paying compensation for pensions mis-selling this year.

One analyst said the liability might be as much as £900m ($1.5bn), compared with its payments and provisions to date of C$416m (£283m). The news could affect the viability of the planned flotation.

The expected increase contrasts with a statement in its report for 1997 that "management does not expect a repeat of the provisions required in 1997 and profitability [of the UK operations] is expected to return to normal levels in 1998".

Sun Life of Canada said yesterday that "the [pensions review] provisions may be moving so fast that we have had to make amendments [to the *estimated provisions*] since the report and accounts were produced".

The rise in provisions relates to the second-phase of the pensions review, covering an estimated 1.6m cases of potential mis-selling across the industry.

Sun Life of Canada refused to disclose its revised estimate of its potential liability for mis-selling. But it said it "could not reconcile" its estimate with the £916m projected cost calculated by Cazalet Financial, an independent firm of investment analysts. Ned Cazalet of Cazalet said the £916m was a projection, not a detailed estimate. But the final bill "could *well be very big. I am* not saying it threatens the financial stability of Sun Life of Canada. But it could well be material to the profitability of the group and impact on whether the flotation is viable, and, if so, what price it gets".

The problem follows Sun Life's admission last January that it understated liabilities for 1995 by £124.4m.

Investors take to indulging in cherry-picking

By George Graham

Some of Europe's largest financial institutions have *backed a new venture capital fund that aims to turn* the traditional structures of *the financial services industry* upside down.

Catalyst, a fund management company formed by Rod Schwartz and Jussi Laurimaa, has raised £23m ($38m) from investors including Netherlands-based ING and Winterthur, the Swiss insurance company, to invest in entrepreneurial companies set up to cherry-pick profitable business segments from old-established banks and insurers.

Other investors include Kempen, the Dutch investment bank, Legg Mason, a US broker, and the city of Rotterdam. Core investors will have access to Catalyst's research, and may invest alongside the fund's own relatively modest resources.

They aim to invest in direct competitors to the traditional banks and insurers – companies hoping to emulate Direct Line, *owned by* Royal Bank of Scotland, that sells policies over the telephone – *and in what they* call "weapons manufacturers". These might include developers of banking software or specialists offering outsourced data-processing for traditional institutions.

Mr Schwartz, a former top-rated banking analyst on both sides of the Atlantic, said the fund had already received more than 75 unsolicited proposals from entrepreneurs seeking backing for their business projects.

Many of the large generalist venture capital funds will not even consider financial services investments.

Mr Schwartz, former head of European equities at Lehman Brothers, later became head of financial institutions banking at Paribas.

MFI to restructure with 15% cut in jobs

By Peggy Hollinger

MFI, the furniture manufacturer and retailer, yesterday took radical steps to revitalise its flagging UK retail business by announcing it would cut 15 per cent of the total workforce and almost 60 per cent of products at a cost to profits of £20m ($33m). The move signals a return in the UK to the kitchens and bedrooms business which formed the core of MFI when it was bought out by management in 1987 from Asda.

It also calls into question the Homeworks strategy implemented by current management three years ago. This was aimed at broadening the appeal of MFI by introducing household accessories such as sheets and cookware, but which has seen operating costs spiral. The restructuring was announced as MFI reported a 14 per cent drop in annual pre-tax profits to £60.4m and warned of further sharp declines in current trading.

Derek Hunt, chairman, said sales since the end of April had been disappointing, at about 10 per cent lower than last year.

MFI shares rose 2½p to 63p, fuelled in part by bid speculation, according to analysts.

Mr Hunt denied there was any pressure for top level management change. However, analysts said the restructuring was the current management's final card.

Mr Hunt said MFI was closing all its 185 branch warehouses. This would release at least 1m sq ft of retail space to be sublet. The move, and the decision to withdraw from household accessories, would mean the loss of 1,500 jobs.

Merrill Lynch heads the herd

Survey emphasises dominance of overseas securities firms in London

By Clay Harris

Merrill Lynch nearly swept the board in Extel's 1998 survey of UK investment analysts, emphasising the increased dominance of US and continental European securities houses in London.

The US investment bank was ranked first for pan-European research and for UK research, and also had the most highly rated sales traders and market makers.

Swiss-owned Warburg Dillon Read, which fell to second overall, had the most highly rated programme traders.

Some 118 fund managers in the UK and continental Europe responsible for investments totalling nearly £2,000bn were polled for the survey, the 25th. Firms' rankings are based on adding scores for individual analysts.

Only two of the top 10 firms, HSBC Securities and Schroder Securities, are UK-owned, although the latter has risen to ninth place in only its second year as an equities house.

Geoffrey Osmint, consulting editor for the survey, said: "What you're seeing is the so-called bulge bracket pulling ahead from the rest. A lot of it is driven by corporate finance aspirations, because that's where the big fees are."

Charles Lambert, Merrill's head of equity research for Europe, Middle East and Africa, said: "We survey our clients regularly to keep abreast of what they want."

Fergus MacLeod was again the most highly rated individual analyst for his oil coverage at BT Alex. Brown, the former NatWest Securities now owned by Bankers Trust. His oil team was the top ranked in any sector for *the fifth straight year*.

Votes for analysts who worked for Union Bank of Switzerland, which ranked fifth in 1997, were allocated to their new firms. Relatively few joined WDR, investment banking subsidiary of the merged UBS and Swiss Bank Corporation.

Extel also surveyed finance directors of the top 350 UK companies. They also voted Merrill Lynch analysts the best by a large margin. The finance directors also rated fund managers, ranking Prudential Portfolio Managers just ahead of Mercury Asset Management, now owned by Merrill Lynch. The finance directors said meetings with analysts were generally of a higher quality than those with fund managers, but the latter had a better grasp of longer term and strategic issues.

Extel is part of Financial Times Information.

Ranking of Investment Analysts, the 1998 25th Annual Survey, Financial Times Information, tel: +44 (0) 171 825 8434/8754, £380

Top pan-European analysts

1998 Rank※, (1997 in brackets)

1998	(1997)	Firm
1	(2)	Merrill Lynch
2	(1)	Warburg Dillon Read
3	(4*)	BT Alex. Brown
4	(3)	HSBC Securities
5	(8)	ABN Amro
6	(7)	Dresdner Kleinwort Benson
7	(8‡)	Credit Suisse First Boston
8	(9)	Goldman Sachs
9	(12)	Schroder Securities
10	(10)	Morgan Stanley Dean Witter

※ 1997 survey included some non-European sectors; * as NatWest Securities; ‡ as BZW
Source: Extel

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Adare Printing ♣	Yr to Apr 30	163.5	(115.9)	15.9	(10.9)	80.1†	(69.33)	6.72	Sept 7	4.479	11.4	7.598
Alliance Res $	Yr to Apr 30 ‡	8.98	(5.84)	2.221♠	(2.341♠)	0.3L†	(0.15L)	-	-	-	-	-
Archer Dedicated φ	Yr to Dec 31	35■	(21.6■)	1.45L♠	(0.167♠)	16.2L	(2.11)	nil		0.8	nil	1.6
Avesco	Yr to Mar 31	31.6	(20.8)	4.8	(3.15)	31.3†	(29.5)	4	Aug 11	3	7	5
Brasway	Yr to May 2	38.6	(38.6)	1.52♠	(2.62♠)	1.21	(2.28)	0.58	Oct 23	0.58	0.9	0.9
Break for Border	Yr to Mar 29	21.8	(24.7)	1.68♠	(1.77)	2.82†	(4.66)	1.3	Sept 11	1.2	2	1.8
Christie	Yr to Mar 31	25.6	(20.3)	1.6	(0.707)	4.68	(2.57)	1.5	Oct 1	1	1.5	1
Debenham Tewson	Yr to Apr 30	79.6	(68.2)	7.74	(4.89♠)	10	(8.19)	2.2	Sept 11	1.5	3.5	2.4
Dobbies Garden φ	6 mths to Apr 30	4.53	(3.54)	0.302	(0.192)	4.4†	(3.5)	1.65	Oct 31	1.5	-	4.5
Eagles φ	Yr to Dec 31 ※	1.46	(-)	0.654	(-)	-	(-)	-	-	-	-	-
Eurasia Mining φ	Yr to Dec 31	-	(-)	1.28L	(1.43L)	33.92L	(54.1L)	-	-	-	-	-
Gaelic Resources ♣	Yr to Dec 31	-	(-)	2.42L♠	(0.758L)	0.53L	(0.23L)	-	-	-	-	-
Greene King	Yr to May 2	282.9	(253.6)	45.3♥	(21.3♠)	57.7†	(25.6)	13.05	Sept 9	11.6	18.35	16.35
Inner Workings φ	Yr to Mar 31	0.324	(0.279)	0.949L	(0.532L)	4.76L†	(2.87L)	-	-	-	-	-
ITG ♣φ	Yr to Apr 30	7.34	(5.53)	0.671	(0.5)	10.3	(-)	-	-	-	-	-
Kenwood Appliances	Yr to Apr 3	170.3	(203.2)	6.17♥	(11.4L♠)	8.7	(29.3L)	nil	-	nil	nil	3.25
Lady in Leisure φ	8 mths to Mar 31 ☆	3.08	(2.81)	0.24	(0.041)	-	(-)	-	-	-	-	-
London Asia Pac φ	Yr to Dec 31 #	0.069□	(0.052□)	0.036	(0.034)	1.27L	(1.1)	-	-	-	-	-
MFI Furniture	Yr to Apr 25	894.8	(845.6)	60.4♥	(70.3)	7.24	(8.24)	3.1	-	3.1	4.9	4.8
Middlesex	Yr to Dec 31	179.2	(177.9)	0.728♠	(8.02♠)	0.22L†	(0.62)	nil	-	0.1	nil	0.1
Peel Holdings	Yr to Mar 31	71.3	(74.8)	15.1	(13.7)	10.07	(8.16)	5.8	-	5.5	8.5	8
Regian	6 mths to Feb 28	0.705	(0.61)	0.069L	(0.103L)	0.3L	(0.46L)	nil	-	nil	-	nil
TGI	Yr to Mar 31	52	(51.6)	2.51	(2.41)	9.1	(9.3)	2.45	Aug 21	2.35	3.85	3.5
Tops Estates	Yr to Mar 31	15.4□	(16.5□)	2.77	(2.34)	5.82	(3.62)	2	Apr 8	1.853	2.74	2.558
Ultima Networks	Yr to Dec 31	38.6	(65.2)	13.2L♠	(0.461♠)	16.2L	(0.21)	nil	-	0.45	nil	0.875
Universal Salvage	Yr to May 2	78.7	(57.1)	1.62	(3.42)	3.9	(8.4)	3.55	Aug 25	3.55	5.2	5.2
Voss Net φ	Yr to Dec 31	0.587	(0.403)	0.124L	(0.315L)	-	(-)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen New Dawn	Yr to Apr 30	147.68	(254.45)	0.81	(1.06)	1.88	(2.47)	1.65	Aug 12	1.65	1.65	1.65
Ptarmigan Intl	Yr to May 31	354.1	(313.4)	0.225	(0.235)	4.8	(4.8)	2.2	July 24	2	4.2	3.9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣Irish currency. †On increased capital. $US currency. ‡Comparatives for nine months to April 30 1997. φAim stock. ■Gross premiums. ♠After exceptional charge. ♥After exceptional credit. ※Pro forma. □Rental income. ☆Comparatives for 12 months to July 31 1997. #Comparatives for 9 mths to Dec 1996.

COMMODITIES & AGRICULTURE

GOLD FALLING RUPEE LIFTS DEMAND

Pakistani prices up 11% in two months

By Farhan Bokhari in Karachi

Gold prices in Pakistan have risen almost 11 per cent during the past two months, in another sign of growing turbulence across the country's financial markets.

The price of 10 grammes of gold reached Rs5,000 ($108.69) yesterday, up from Rs4,608 a month ago and Rs4,500 two months ago.

Yesterday's rise of almost 4 per cent – the sharpest one-day rise so far – has added to speculation that gold is increasingly being used by investors to hedge against the instability of the rupee. The currency was devalued by 4.2 per cent at the weekend.

Market analysts said the rise in prices was largely the result of the volatile economic conditions, driven not only by uncertainty over the rupee but also worries that Pakistan might not be able to meet its external debt repayments in coming weeks.

The country is struggling under the weight of western sanctions which were imposed after Islamabad carried out nuclear tests in May.

Gold traders also warn that gold prices could be hit by the new general sales tax (GST), which is being introduced at jewellery stores from today.

"The GST would only encourage gold businesses to smuggle gold rather, than pay the tax, and make its price more expensive for buyers," said Jan Muhammad, a gold trader at ARY Gold in Dubai.

Gold prices are usually stable at this time of year, with demand growing from September ahead of the peak wedding season in December when orders for bridal dresses are placed along with orders for jewellery.

Unlike western tradition, bridal wedding attire across south Asia includes jewellery worn on the forehead, heavy ear-rings and necklaces, gold bangles, anklets and occasionally toe rings.

In Pakistan's rural areas, farming families also prefer to buy jewellery in the winter season, when they have extra cash after the rice and cotton harvests.

"This year, the reasons are different. There's fear over the economy and it is generally known that gold will only become expensive in time," said Mr Muhammad. "The clash between the rupee and gold due to uncertain market conditions will keep on driving gold upwards".

Other gold traders said the escalating gold price did not necessarily suggest a sudden surge in the quantity of the metal being traded, although it pointed to increasing uncertainty in the market.

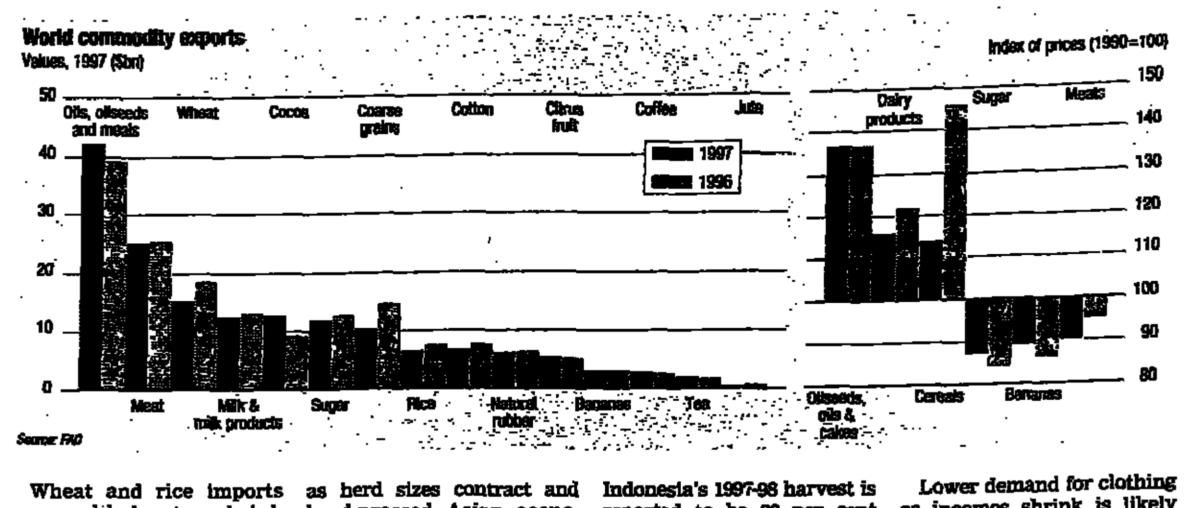
Pakistan is estimated to receive about 25 tonnes of gold a year through legal imports, though another 50 tonnes a year is thought to be smuggled into the country.

According to Farooq Qureshi, general secretary of the Karachi jewellery stores association: "It's not that there is a great big rush of buyers, because most Pakistanis cannot afford to stock up gold. It's just that every time the dollar moves up against the rupee, gold moves up automatically."

Some analysts said that, with demand for dollars growing every day, buyers who could not find the US currency on the market were buying gold instead.

Asian demand for commodities 'to fall'

By Gary Mead



Turmoil in Asian economies will have a marked impact on the world markets for important commodities this year and next, the UN's Food and Agriculture Organisation says.

In its latest annual review* of commodity markets, the FAO identifies reduced imports and increased exports from the region as big factors affecting global demand and competitiveness.

The organisation says economic problems in Indonesia, Japan, Korea, Malaysia and Thailand will affect agricultural commodities in three ways:

● A sharp contraction of incomes across the region will cut import demand;

● currency depreciation and the greater availability of exportable supplies will fuel increased export competitiveness;

● reduced incomes in other regions closely linked to Asian economies will cut worldwide demand for agricultural commodities.

Wheat and rice imports are unlikely to shrink because they are staple foods but the FAO expects imports of coarse grains by the affected Asian nations to be less than 2m-3m tonnes.

Livestock products will also be hit hard by falling demand and meat prices are likely to drop this year.

Demand for oilseeds, oil cakes and meals, all important feedstuffs for the meat sector, is also likely to fall, as herd sizes contract and hard-pressed Asian economies buy cheaper soybean meal from within the region, including China and India.

Opportunities for greater competitiveness in the export of coffee from Asia – another unexpected result of local currency depreciation – may turn out to be a chimera as demand for coffee contracts in Japan and harvests are severely curtailed as a consequence of drought. Indonesia's 1997-98 harvest is reported to be 30 per cent lower than first forecast.

However, there is good news for Asian exporters of tropical fruit. The FAO says collapsed freight rates to Europe from Asia, which have fallen by 20 per cent this year, have given a significant boost to the region's competitiveness, and could help it win market share from African and Latin American exporters.

Lower demand for clothing as incomes shrink is likely to mean decreased Asian demand for cotton: the region normally accounts for 25 per cent of world imports. Natural rubber will also be affected, through reduced demand for motor vehicles and a probable short-term increase in the supply of rural labour, leading to increased production.

**Commodity Market Review 1997-98. FAO, Rome.*

Peruvian company to join gold index

By Kenneth Gooding, Mining Correspondent

Compania de Minas Buenaventura of Peru is to be the first South American group in the FTSE Gold Mines Index. The index committee decided yesterday that Buenaventura would join on August 3 and the name of the regional section of the index should be changed from North America to the Americas.

Buenaventura's prime asset is 43.6 per cent of Yanacocha, South America's biggest gold mine, scheduled to produce 1.2m troy ounces this year. Last month, Buenaventura and its joint venture partner, Newmont of the US, with 51.3 per cent, won a three-year court battle with Normandy Mining of Australia over ownership of Yanacocha.

Yanacocha produced 1m ounces of gold last year, at a cash cost of $107 an ounce and total costs of about $160. Its reserves rose from 6m ounces at the beginning of 1997 to 14m and resources were maintained at 5.5m ounces.

Buenaventura was set up in 1953 by Alberto Benavides, whose family still has the largest shareholding. It has nine producing mines in Peru, with four including Yanacocha, gold producers.

At present Yanacocha, located above the tree line in the Andes near the town of Cajamarca, is in reality three separate mines but eventually they will be joined together as one big pit. Output is likely to be held at the present level for some years.

As well as the gold mines, Buenaventura has five silver mines, all of which produce some base metals. The biggest silver producer is Uchucchacua, which is being expanded and is projected to produce 6m ounces next year.

US warning to Iraq lifts crude oil

MARKETS REPORT

By Robert Corzine, Kenneth Gooding and Paul Solman

Crude oil prices jumped yesterday after a US aircraft fired a missile at an Iraqi radar site that was said to have "locked on" to allied aircraft patrolling the southern no-fly zone.

Brent Blend for August delivery hit an intraday high of $13.65 a barrel, 46 cents up on its Monday close, on news of the incident.

However, it later settled back to about $13.41 a barrel in late trading on London's International Petroleum Exchange.

The incident brought Iraq back into focus as an issue for crude oil markets, which in recent weeks have been obsessed with global stock levels and inventories.

The latest US inventory data are expected to offer some short-term direction to the markets this week. But Adrian Lajous, the head of Pemex, Mexico's state oil monopoly, yesterday predicted that stocks would only begin to fall – and crude prices rise – when demand stabilised and the latest production cuts by the Organisation of Petroleum Exporting Countries were implemented.

Cocoa prices rose on the London International Financial Futures Exchange, recovering a little ground from the 10-month low reached on Monday.

Dealers said fund selling prevented the market from maintaining its rally, but they expected the price to strengthen further today.

Volume for the September contract was heavy at 11,530 lots and it closed at £1,043 a tonne, up £8 on the day.

Sugar fell in the wake of Russia's announcement that it would impose an import tax on raw sugar from today. The October contract finished $5.50 lower at $251.30 a tonne.

On the London Metal Exchange, copper rose after a report that China might cut its output of the metal in the second half of this year. The rise was short lived, however, and three-month copper closed at $1,636 a tonne, down $2.

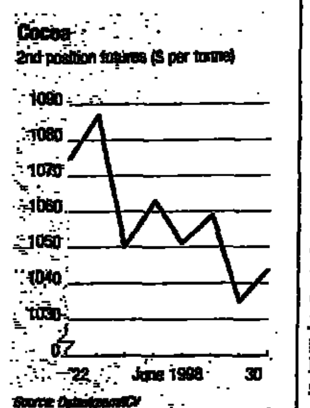
"Even if it does happen, China could devalue and cause a rush of exports," one trader pointed out.

Analysts are beginning to stress that the copper market is not moving into the big supply surplus that was predicted at the start of 1998.

In May, the International Wrought Copper Council revised its forecast of this year's supply surplus from 970,000 to 400,000 tonnes. Last week, the International Copper Study group forecast a 120,000 tonnes surplus for this year and one of 311,000 tonnes for 1999.

Ted Arnold, a first vice-president at Merrill Lynch, suggested that stronger than expected demand in North America and Europe caught analysts off guard, while Asia "has not been as grim as most observers were expecting".

In Merrill's Commodity Market Trends, Mr Arnold said it was unlikely copper would trade below $1,600 a tonne for very long and that the top end of its trading range, possibly to be seen in the fourth quarter of 1999, would probably be $1,820.



COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1285.5-9.5	1317.5-8.5
Previous	1282.5-83.5	1312-13
High/low		1324.5/1312
AM Official	1284-85	1314-15
Kerb close		1324-5
Open int.	n/a	
Total daily turnover	n/a	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1215-20	1205-9
Previous	1210-20	1200-04
High/low		1210/1200
AM Official	1210-16	1202-06
Kerb close		1208-10
Open int.	n/a	
Total daily turnover	n/a	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	545-6	547-8
Previous	523-24	537-38
High/low		552/546
AM Official	544-45	545-46
Kerb close		549-50
Open int.	n/a	
Total daily turnover	n/a	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4310-20	4370-80
Previous	4320-30	4365-95
High/low		4440/4330
AM Official	4280-85	4335-60
Kerb close		4380-85
Open int.	n/a	
Total daily turnover	n/a	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5655-65	5530-40
Previous	5730-60	5640-50
High/low		5630/5470
AM Official	5600-10	5480-90
Kerb close		5535-60
Open int.	n/a	
Total daily turnover	n/a	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	995-6	1021-2
Previous	989.5-89.5	1014-15
High/low		1024/1013
AM Official	986-89	1014-15
Kerb close		1020-1
Open int.	n/a	
Total daily turnover	n/a	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1625-6	1642-3
Previous	1625-26	1640.5-41.5
High/low		1650/1633
AM Official	1618-19	1635-36
Kerb close		1636-7
Open int.	n/a	
Total daily turnover	n/a	

■ LME AM Official £/$ rate: 1.6649

LME Closing £/$ rate: 1.6675

Spot: 1.6667 3 mths: 1.6613 6 mths: 1.6540 9 mths: 1.6457

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	73.35	+0.25	74.50	73.00	7,083	7,389
Aug	73.70	+0.25	74.60	73.65	267	2,512
Sep	73.80	+0.20	75.00	73.20	6,525	23,674
Oct	74.65	+0.15	74.20	74.35	13	1,570
Nov	74.35	+0.15	74.80	74.80	11	1,516
Dec	74.45	+0.05	75.40	74.40	806	13,312
Total					14,671	63,778

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	297.40-297.90		
Opening	296.00-296.30		
Morning fix	295.75	177.628	451.019
Afternoon fix	296.30	177.798	449.763
Day's High	297.70-298.00		
Day's Low	293.30-295.80		
Previous close	293.90-294.30		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.43	6 months	3.62
2 months	4.32	12 months	3.80
3 months	4.23		

Silver Fix	p/troy oz.	US cts equiv.
Spot	322.10	535.75
3 months	[illegible]	[illegible]
6 months	[illegible]	[illegible]
1 year	[illegible]	[illegible]

Silver Lending Rates

1 month	3.00	6 months	2.25
2 months	2.75	12 months	2.00
3 months	2.50		

Gold Coins	$ price	£ equiv.
Krugerrand	295-299	177-179
Maple Leaf	[illegible]	[illegible]
New Sovereign	69-73	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	297.0	+3.2	296.6	296.6	32	485
Aug	298.1	+3.2	299.4	294.7	8,416	77,031
Oct	300.3	+3.2	301.2	298.9	38	7,499
Dec	302.2	+3.2	303.5	299.9	473	21,605
Feb	303.9	+3.2	305.5	304.3	86	13,023
Apr	305.7	+3.2	305.5	305.0	100	8,073
Total					9,780	168,719

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	361.6	+8.8	361.0	355.5	2,333	1,725
Oct	360.6	+7.6	363.0	353.0	2,563	9,297
Jan	361.6	+7.6	362.0	358.0	4	784
Apr	361.6	+7.6	-	-	2	15
Total					4,903	11,229

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	285.45	-	289.00	283.00	52	2,907
Dec	275.45	-	-	-	70	1,016
Mar	270.45	-15.05	-	-	-	20
Total					72	3,943

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	550.7	+20.2	555.0	529.0	11,451	12,050
Sep	553.5	+19.5	558.5	532.5	11,964	44,589
Dec	557.8	+18.7	563.0	538.0	866	17,737
Jan	559.2	+18.7	-	-	-	26
Mar	560.9	+18.7	559.0	541.0	14	3,048
May	561.4	+18.7	-	-	11	1,386
Total					24,385	88,686

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	14.24	+0.17	14.55	14.00	23,682	118,0[illegible]
Sep	14.75	+0.14	14.90	14.64	13,846	71,671
Oct	15.15	+0.13	15.35	15.05	8,193	40,098
Nov	15.55	+0.14	15.65	15.52	1,852	20,980
Dec	15.77	+0.04	15.95	15.77	2,427	44,751
Jan	16.14	+0.15	16.15	16.10	668	27,005
Total					[illegible]	477,601

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	72,026
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	41,334
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	21,150
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13,286
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	35,168
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17,797
Total						n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	38.90	+0.40	39.20	38.65	13,839	10,028
Sep	39.65	+0.31	40.00	39.45	12,023	52,668
Oct	40.85	+0.31	41.20	40.75	4,590	24,459
Nov	42.40	+0.41	42.65	42.35	1,583	17,152
Dec	44.00	+0.56	44.10	43.78	2,239	14,852
Jan	45.20	+0.41	45.50	45.15	1,166	25,120
Total					[illegible]	[illegible]08,552

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	118.50	+2.00	119.25	116.75	8,595	35,054
Aug	123.00	+1.50	123.50	121.25	6,790	26,066
Sep	127.00	+1.75	127.75	125.25	1,764	14,633
Oct	131.00	+1.75	131.50	130.00	674	16,474
Nov	134.25	+1.75	134.25	133.25	743	10,777
Dec	137.50	+1.75	138.00	136.50	3,276	38,056
Total					[illegible]	[illegible]2,564

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	9.290	+0.020	-	-	-	875
Sep	9.330	+0.060	-	-	-	1,050
Total					195	18,985

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	2.465	+0.066	2.475	2.380	13,826	43,992
Sep	2.470	+0.061	2.480	2.401	3,543	24,519
Oct	2.480	+0.051	2.495	2.420	2,058	15,033
Nov	2.635	+0.046	2.640	2.585	417	16,852
Dec	2.780	+0.029	2.780	2.755	402	21,077
Jan	2.815	+0.029	2.825	2.790	849	29,734
Total					[illegible]	[illegible]3,861

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	46.60	+0.56	47.10	46.00	20,288	13,235
Aug	47.60	+0.56	48.05	47.00	14,314	43,121
Sep	48.15	+0.53	48.60	47.65	3,056	23,766
Oct	47.65	+0.33	47.75	47.40	538	8,060
Nov	47.00	+0.28	48.00	47.00	48	3,626
Dec	46.30	+0.38	46.55	46.25	223	3,412
Total					[illegible]	[illegible],289

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	74.50	-0.25	74.50	74.25	41	152
Sep	72.00	-	-	-	-	156
Nov	74.15	-	74.00	74.00	57	3,610
Jan	76.15	-	76.10	76.00	41	1,135
Mar	78.15	-	78.15	78.00	28	475
Total					177	5,892

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	276.25	+8.00	277.00	268.25	16,049	9,565
Sep	287.50	+6.00	289.00	280.00	18,698	44,539
Dec	303.25	+6.00	304.75	297.00	18,418	46,469
Mar	316.50	+6.75	317.00	310.00	1,588	13,761
May	323.50	+6.50	324.00	319.00	174	1,691
Jul	331.75	+4.75	333.00	330.00	279	3,013
Total					55,404	119,838

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	245.25	+6.75	245.50	237.50	48,973	30,056
Sep	253.25	+8.50	253.50	245.50	27,891	87,710
Dec	259.50	+7.00	260.00	249.50	42,750	149,262
Mar	267.75	+7.75	268.00	259.00	2,240	19,885
May	274.00	+8.25	274.00	267.00	305	4,312
Jul	278.25	+8.50	278.75	271.50	786	8,417
Total					123,878	304,988

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	69.75	-0.25	-	-	-	24
Nov	72.25	-0.25	-	-	-	1,025
Jan	74.25	-0.25	74.50	74.50	5	213
Mar	76.25	-0.25	-	-	-	46
May	77.75	-0.25	-	-	-	21
Total					5	1,329

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	640.00	+21.25	643.50	618.00	16,246	16,702
Aug	632.00	+17.25	634.50	608.25	14,098	32,782
Sep	622.25	+12.00	624.50	600.25	3,357	13,454
Nov	616.75	+10.75	619.00	599.00	41,848	71,597
Jan	624.50	+10.75	626.00	610.00	724	7,817
Mar	631.50	+11.00	631.50	619.50	1,057	4,036
Total					77,880	151,606

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	25.26	+0.37	25.52	24.85	14,301	14,685
Aug	25.49	+0.37	25.72	25.10	16,176	37,910
Sep	25.74	+0.43	25.88	25.45	4,290	22,804
Oct	25.93	+0.38	26.03	25.60	1,203	11,413
Dec	26.07	+0.40	26.25	25.63	9,939	35,562
Jan	26.15	+0.35	26.32	26.10	52	3,749
Total					46,211	131,233

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	168.7	+8.9	169.0	159.0	11,486	16,186
Aug	168.6	+7.3	167.0	158.0	11,122	28,883
Sep	166.1	+6.2	166.5	158.0	3,531	18,052
Oct	165.1	+5.1	165.0	158.0	574	13,063
Dec	166.2	+4.4	166.5	159.5	9,371	42,510
Jan	167.1	+4.5	168.0	162.0	132	5,282
Total					36,480	128,472

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	80.0	-	-	-	-	-
Mar	110.0	-	-	-	-	-
Apr	160.0	+2.0	160.0	156.0	76	1,663
May	170.0	+2.0	-	-	-	-
Jun	180.0	+2.0	-	-	-	-
Total					76	1,663

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	871	+1	-	-	36	55
Jul	795	-20	815	795	39	534
Oct	915	-5	925	925	15	430
Jan	975	-5	-	-	-	237
Apr	1010	-5	-	-	-	100
Total					91	1,715

	Close	Prev
BFI	856	864

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	476.00	-0.50	480.00	475.00	85	690
Dec	501.50	+1.00	502.50	497.00	43	230
Total					128	893

FUTURES DATA
All futures data supplied by CMS.

Tea from the Tea Brokers' Association

London: There was selective demand for the 10,634 packages offered. Among landed teas, brighter liquoring Burundis and Ceylons sold well. There was fair demand for offshore teas. Price indications in pence per kg (previous sale in brackets): best available 195p (199p), good 150p (150p), good medium 125p (138p), medium 98p (115p), low medium 80p (88p). Highest price paid was 198p for a Ceylon BOP.

● This week's sale was the last London Tea Auction. In future, the FT will print prices from the Mombasa auction.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1007	+5	1011	1000	11,430	12,445
Sep	1043	+8	1046	1034	12,622	29,813
Dec	1071	+5	1078	1066	2,458	40,491
Mar	1096	+5	1102	1091	830	37,142
May	1111	+4	1115	1109	138	13,538
Jul	1126	+3	1132	1127	24	6,282
Total					27,834	152,061

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1523	+13	1536	1520	16	81
Sep	1575	+13	1590	1566	5,275	26,999
Dec	1614	+9	1619	1610	754	20,652
Mar	1652	+7	1657	1650	469	10,828
May	1676	+6	1674	1670	42	4,353
Jul	1701	+6	1695	1695	2	1,583
Total					6,574	72,327

■ COCOA (ICCO) (SDR's/tonne)

Jun 29	Price	Prev. day
Daily	1263.86	1253.00

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1572	-16	1600	1570	3,253	4,171
Sep	1600	-	1617	1598	3,345	18,541
Nov	1601	+3	1615	1605	522	5,475
Jan	1606	+11	1620	1605	56	1,157
Mar	1606	+14	1615	1605	60	548
May	1611	+19	1620	1607	30	190
Total					7,266	30,160

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	111.25	-1.05	112.00	110.90	135	798
Sep	110.20	-1.50	111.75	109.75	3,070	19,357
Dec	111.55	-1.80	113.25	111.50	457	8,781
Mar	113.05	-1.95	115.00	113.05	265	3,184
May	114.55	-1.95	115.75	114.75	28	1,550
Jul	115.75	-2.75	117.00	116.25	15	924
Total					3,975	35,844

■ COFFEE (ICO) (US cents/pound)

Jun 29		Prev. day
Comp. daily	97.94	99.80
15 day average	102.51	103.07

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	255.7	-4.6	259.9	254.5	1,328	12,810
Oct	251.1	-5.7	256.4	250.0	1,259	17,046
Dec	250.7	-5.3	255.0	251.0	312	3,861
Mar	255.1	-5.3	258.5	254.8	301	5,662
May	257.1	-5.3	257.5	258.8	63	892
Aug	259.6	-6.4	261.5	261.5	-	1,036
Total					3,263	41,692

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	8.46	-0.28	8.68	8.00	11,603	10,638
Oct	8.58	-0.45	8.90	8.50	29,379	96,273
Mar	9.03	-0.39	9.15	8.96	7,806	34,416
May	9.10	-0.45	9.21	9.05	457	5,289
Jul	9.15	-0.43	9.22	9.14	220	4,351
Oct	9.20	-0.41	9.35	9.20	108	5,334
Total					49,889	161,376

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	81.80	-0.10	81.50	80.50	187	1,946
Oct	79.89	+0.25	79.90	78.27	1,100	7,821
Dec	77.84	-	77.50	76.30	6,031	50,331
Mar	76.98	-	76.48	75.70	768	11,927
May	76.80	+1.10	76.50	75.75	376	6,607
Total					8,598	87,270

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	103.85	+0.05	104.20	103.30	2,041	2,586
Sep	107.70	-	108.35	107.30	1,562	14,800
Nov	110.80	-0.05	111.50	110.60	137	4,816
Jan	113.55	-0.20	114.00	114.00	15	2,268
Mar	116.30	-0.35	117.25	118.50	2	1,242
May	119.05	-0.50	119.25	119.25	1	883
Total					3,757	26,386

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jun 30	Jun 29	month ago	year ago
1550.1	1569.2	1591.6	1959.9

■ CRB Futures (Base: 1967 = 100)

Jun 29	Jun 26	month ago	year ago
213.23	214.74	-	-

■ GSCI Spot (Base: 1970 = 100)

Jun 29	Jun 26	month ago	year ago
154.27	155.54	158.27	184.17

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-2,525	to	538,100
Aluminium alloy	+100	to	54,980
Copper	-475	to	249,750
Lead	-75	to	104,825
Nickel	-84	to	59,074
Zinc	-2,275	to	387,600
Tin	+100	to	4,330

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	62.975	-0.100	63.500	62.950	539	595
Aug	65.025	-0.300	65.300	64.500	6,043	43,950
Oct	64.200	-0.575	64.700	63.650	1,750	25,015
Dec	65.575	-0.775	66.325	65.550	732	9,285
Feb	67.175	-0.650	67.775	67.025	221	3,468
Apr	68.725	-0.500	69.175	68.600	115	1,782
Total					9,483	84,530

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	57.850	-2.000	59.500	57.850	1,771	5,928
Aug	54.925	-1.700	56.400	54.825	3,485	9,987
Oct	49.575	-1.150	50.500	49.300	938	6,210
Dec	48.850	-1.650	50.500	48.750	569	4,654
Feb	50.400	-2.000	52.050	50.400	119	1,593
Apr	50.000	-2.000	51.000	50.000	63	410
Total					6,979	29,180

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	60.425	+0.725	60.600	58.200	998	2,067
Aug	57.125	+0.500	57.350	54.750	891	2,906
Feb	51.600	-2.300	52.550	51.500	22	68
Total					1,919	5,041

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Aug	Nov	Aug	Nov
n/a				
n/a				
n/a				
■ COPPER (Grade A) LME	Aug	Nov	Aug	Nov
n/a				
n/a				
n/a				
■ COFFEE LIFFE	Sep	Nov	Sep	Nov
1600	64	97	64	98
1650	45	79	96	129
1700	32	65	132	164
■ COCOA LIFFE	Sep	Dec	Sep	Dec
1050	27	70	34	49
1075	19	58	51	62
1100	13	49	70	78
■ BRENT CRUDE IPE	Aug	Sep	Aug	Sep
1300	-	-	-	24
1350	38	-	-	-
1400	17	61	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$11.66-1.73x	+0.215
Brent Blend (dated)	$11.90-1.94	+0.24
Brent Blend (Aug)	$13.40-3.44	+0.19
W.T.I.	$14.28-4.32x	+0.22

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$160-162	+3
Gas Oil	$117-118	+2
Heavy Fuel Oil	$63-65	
Naphtha	$119-120	
Jet fuel	$127-128	+1
Diesel	$119-120	

■ NATURAL GAS (Pence/therm)

Bacton (Jul)	8.45-8.55	+0.03

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHERS

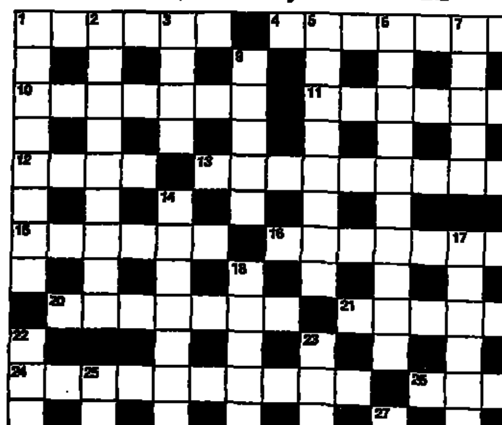
Gold (per troy oz)♣	$297.65	+3.60
Silver (per troy oz)♣	538.50c	+8.00
Platinum (per troy oz.)	$357.25	+8.25
Palladium (per troy oz.)	$297.00	+1.00
Copper	79.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	23.27r	
Tin (New York)	270.5	-8.5
Cattle (live weight)	91.66p	+0.19*
Sheep (live weight)	116.57p	-0.12*
Pigs (live weight)†	63.38	-2.00*
Lon. day sugar (raw)	$212.80	
Lon. day sugar (wte)	$264.60	
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Aug)♥	45.25p	
Rubber (Sep)♥	45.25p	
Rubber (KL RSS No1)	276.50m	+3.00
Coconut Oil (Phil)§	645.0y	-5.0
Palm Oil (Malay.)§	595.00	
Copra (Phil)§	$400.0y	
Soyabeans (US)	170.0y	
Cotton Outlook'A' Index	70.40	+0.50
Wooltops (64s Super)	325p	-8

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jul/Jul. x Aug. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 3,645 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,722 Set by CINEPHILE



B has the same meaning throughout

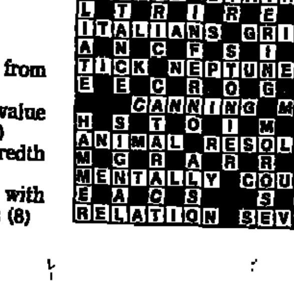
ACROSS

1 B man on call *round the* Caribbean (6)
4 B no longer put on in court (8)
10 Bs makes complaints about hospital (7)
11 B for books (7)
12 B to try and sell (4)
13 B's little line on letter a little way *round a pole* (5,5)
15 B the magician (6)
16 Future B when the revolution comes to Chinese-American food (3,4)
20 B is yellow (7)
21 B, a male beast, left off repeatedly (6)
24 B not far from the river, a back *number* (5,5)
26 B of the St. Lawrence (4)
28 B's fate reversed in some orange .... (7)
29 .... flags for B (7)
30 B not singing even at death? (4,4)
31 B's business (6)

DOWN

1 EMOH, where I come from (4,4)
2 *Store founder* placing value on sheep's clothing (9)
3 B's home at his hundredth year? (4)
5 Bs' plan is in bother with Great Western leaders (8)
6 Sort of tree, of course, in *development* (10)
7 Companion vessel to hold milk (5)
8 Garment from shop on chorus girl (6)
9 The American Lady, an old master (5)
14 Tell stories – of cricket? (5,5)
17 *One little* boy in descent from a dissolute person (9)
18 Periods of ten years in EEC and otherwise (8)
19 RUC man's the *standard* article, inside and out (8)
22 Doing well? Tell (6)
23 B in one's spare time (5)
25 Returning, for example, to B: do you follow me? (3,2)
27 Social worker one is opposed to (4)

Solution 9,731



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EURO PRICES

EQUITIES

Weaker dollar hits Europe

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

Europe's stock markets mostly retreated from Monday's all-time highs yesterday as a weaker dollar and subdued opening in New York depressed sentiment.

A strong performance by the Tokyo market, which gained more than 3 per cent, failed to give Europe much heart with traders seemingly paying more attention to Wall Street's inability to close above the 9,000 level on Monday.

The FTSE Eurotop 100 index dropped 22.57 points, or 0.8 per cent, to 2,890.83 while the broader Eurotop 300 index slipped 8.42 to 1,249.09. The FTSE Ebloc 100 index, comprising stocks in countries which plan to be in the first wave of monetary union, fell 8.55 to 1,043.17.

As European equity markets looked back on a highly profitable first half, heads of state, finance ministers and bank governors gathered in Frankfurt to celebrate the launch of the European Central Bank.

The Goldman Sachs European team points out: "Over the past six months, there have been strong upward revisions to continental European earnings estimates.

"This has been largely due to a steady reappraisal of domestic growth prospects for continental Europe which have outweighed the negative impacts of slower Asian growth.

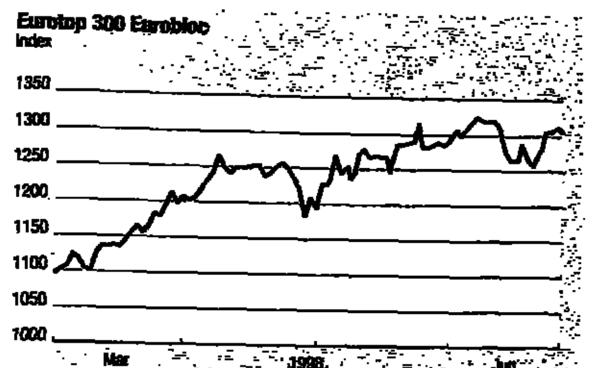
"We feel that continental Europe is likely to see further upgrades (albeit at a slower pace) due to the strong probability of a further domestic growth surprise in Europe," added Goldman.

Diversified industrial group Veba fell Ecu 5.3 to Ecu 60.1 as chief executive Ulrich Hartmann said it would be very difficult for the company to meet its 10 per cent profit growth targets in 1998 and 1999. That dragged the diversified sector down 3.2 per cent, making it Europe's worst performer on the day.

The leisure sector fell 1.9 per cent, with French hotels group Accor dropping Ecu 6.6 to Ecu 256.07.

The attack by a US aircraft on a radar installation in Iraq caused a brief flurry in the oil price but left oil stocks little moved on the day. Petrofina, the Belgian oil group, gained Ecu 7.3 to Ecu 374.34.

Eurotop 300 Eurobloc
Index



Source: FTSE International

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.770	95.775	-0.010	95.775	95.765	173	15700
Dec	96.030	96.040	-	96.040	96.030	135	7278
Mar	95.980	95.980	-0.010	95.980	95.970	133	4719
Jun	95.860	95.865	-0.010	95.865	95.860	109	1813

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
95875	0.005	0.015	0.025		0.105	0.115	0.125	
96000	0	0.005	0.010	0.135	0.225	0.230	0.235	0.085

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		2917.0	-33.0			0	939
Dec		2952.0	-21.0			0	73

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2725 C	2725 P	2750 C	2750 P	2775 C	2775 P	2800 C	2800 P	2825 C	2825 P	2850 C	2850 P	2875 C	2875 P	2900 C	2900 P
Jul	193	13	171	11	149	19	129	23	109	29	91	36	76	45	59	55
Aug	239	44	210	50	192	56	174	63	156	71	140	74	124	85	110	99

Est vol total:154 Prev day's open interest total: 4,192 . Premiums shown are based on settlement prices.

OTHER INDICES

	Jun 30	Jun 29	Jun 26	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3417.88	3440.00	3407.78	3440.88	2574.51	3440	2976.42
DJ Euro Stx 50	3408.82	3431.86	3395.41	3443.78	2468.81	3443.78	2005.32
MSCI Europe	1243.85*	1235.81	1233.65	1250.03	960.50	1256.03	510.78

Source: Extel/part of FT Information. *Subject to revision next day. (a) unavailable.

FTSE Actuaries Share Indices — European series

Jun 30 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1249.09	-0.67	-8.42	2.20	18.09	1277.85
FTSE Eurotop 100	2890.83	-0.77	-22.57	2.20	24.12	1029.93
FTSE Ebloc 100	1043.17	-0.81	-8.55	1.77	11.21	1054.67
FTSE Eurotop 300 Regions						
Eurobloc	1304.45	-0.65	-8.55	1.80	18.92	1327.17
UK	1135.09	-1.95	-12.29	2.85	21.44	1196.85
Europe Ex-Eurobloc	1205.62	-0.69	-8.35	2.62	18.28	1236.65
Europe Ex-UK	1302.26	-0.48	-6.27	1.86	16.19	1323.46
FTSE Eurotop Industry Sectors						
RESOURCES	1025.21	-0.28	-2.91	2.68	18.78	1039.63
Extractive Industries	768.20	-1.78	-13.87	3.48	0.00	765.20
Oil, Integrated	972.78	-0.21	-2.10	2.67	12.98	985.86
Oil, Exploration & Prod	962.72	-0.85	-8.07	2.59	0.00	962.72
GENERAL INDUSTRIES	1228.37	-1.10	-13.65	2.07	16.76	1249.18
Construction	995.61	-0.43	-4.29	2.70	0.00	995.61
Building Matls & Merchs	1002.09	-1.57	-14.87	2.44	7.95	1059.41
Chemicals	1059.44	-1.03	-11.15	2.11	15.98	1085.44
Diversified Industrials	1031.07	-3.15	-33.59	2.14	18.20	1047.31
Electronic & Elect Equip	1035.48	-0.14	-1.46	1.75	2.34	1037.82
Engineering	1034.40	-0.87	-8.92	3.20	5.88	1039.24
Paper, Pckg & Printing	998.95	-0.87	-8.78	2.43	0.00	998.95
CONSUMER GOODS	1188.31	-0.99	-11.87	1.66	13.21	1215.05
Automobiles	1129.45	-1.33	-15.28	1.01	6.86	1136.85
Alcoholic Beverages	993.25	-0.68	-6.77	2.32	5.82	999.14
Food Producers	1046.28	-1.60	-16.03	1.82	7.60	1054.17
Household Goods & Texts	1035.58	-0.97	-10.14	1.71	7.01	1103.13
Healthcare	1073.51	-0.67	-7.25	1.16	0.52	1084.83
Pharmaceuticals	1618.17	-0.77	-7.82	1.33	2.07	1620.31
Tobacco	1032.25	-0.75	-7.81	4.24	1.81	1034.19
SERVICES	1231.44	-0.77	-9.57	1.58	16.54	1257.33
Distribution	992.16	-0.71	-7.07	1.11	7.98	999.88
Leisure & Hotels	1038.26	-1.87	-19.26	2.52	6.12	1017.42
Media	1045.46	-0.98	-10.33	2.20	1.59	1047.07
Retailers, Food	1076.32	-0.75	-8.16	1.38	3.13	1086.37
Retailers, General	1027.00	-1.63	-17.00	2.23	8.76	1035.77
Telecommunications	1068.11	-0.52	-5.82	1.97	7.28	1073.84
Breweries, Pubs & Rests	1012.61	-0.59	-6.07	3.04	8.68	1021.17
Support Services	1067.23	+0.17	+1.77	0.57	5.86	1073.41
Transport	1081.47	-0.55	-5.98	2.38	7.82	1089.49
Information Technology	1287.36	-0.74	-9.56	0.32	2.23	1289.91
UTILITIES	1348.87	-1.15	-15.65	3.39	48.52	1416.94
Electricity	1005.02	-1.55	-15.83	3.85	22.72	1028.32
Gas Distribution	1087.88	-1.29	-13.51	1.16	63.72	1164.72
Water	1076.38	+0.95	+10.16	4.83	29.85	1105.27
FINANCIALS	1368.18	-0.18	-2.45	2.41	20.19	1395.08
Banks,Retail	992.71	-0.89	-8.89	2.93	8.02	1000.76
Insurance	997.29	-0.52	-5.21	1.33	6.52	1003.81
Life Insurance	1064.69	+1.24	+13.04	1.98	3.19	1068.22
Other Financial	952.82	-1.23	-11.83	2.12	13.23	985.40
Investment Companies	1099.89	-1.20	-13.37	2.10	20.88	1109.89
Property	881.35	-2.34	-16.75	3.22	18.01	877.18

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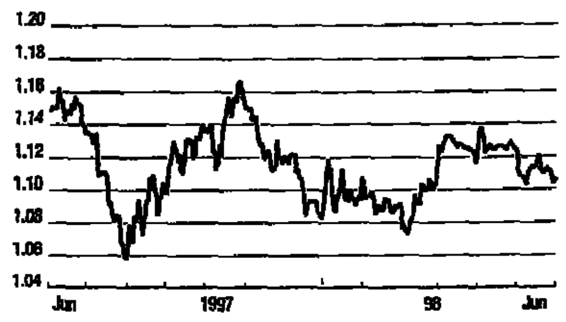
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Jun 30	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.073300	+0.0031	+0.02	+0.0024	+0.02
Belgium	BEF	41.236909	-0.0131	-0.03	-0.0199	-0.05
Czech Republic	CZK	36.166243	-0.5143	-1.40	-0.5890	-1.60
Denmark	DKK	7.621237	+0.0051	+0.07	+0.0034	+0.05
Finland	FIM	6.060255	+0.0025	+0.04	+0.0013	+0.02
France	FRF	6.700305	-0.0001	+0.00	-0.0024	-0.04
Germany	DEM	2.000339	+0.0004	+0.02	+0.0004	+0.02
Greece	GRD	337.209632	-0.4615	-0.14	-0.0971	-0.03
Hungary	HUF	242.456623	+0.7746	+0.32	+1.4178	+0.59
Ireland	IEP	0.784484	+0.0005	+0.06	+0.0002	+0.03
Italy	ITL	1969.918507	-0.5413	-0.03	-0.0596	+0.00
Luxembourg	LUF	41.236909	-0.0131	-0.03	-0.0199	-0.05
Netherlands	NLG	2.254343	+0.0002	+0.01	-0.0001	+0.00
Norway	NOK	8.503935	+0.0209	+0.25	+0.0632	+0.75
Poland	PLN	3.884367	-0.0075	-0.19	+0.0080	+0.21
Portugal	PTE	204.710611	+0.0598	+0.03	-0.0744	-0.04
Romania	ROL	9630.995913	+68.4947	+0.72	+94.1687	+0.99
Russia	RUB	6.903884	+0.0405	+0.59	-0.0039	-0.06
Slovakia	SKK	38.936242	-0.0439	-0.11	-0.1606	-0.41
Spain	ESP	169.857578	-0.0575	-0.03	+0.0770	+0.05
Sweden	SEK	8.837953	+0.0536	+0.61	+0.0291	+0.33
Switzerland	CHF	1.660950	-0.0020	-0.12	+0.0119	+0.71
United Kingdom	GBP	0.664157	+0.0018	+0.28	-0.0025	-0.38
ECU	ECU	1.009368	+0.0005	+0.05	-0.0011	-0.11
Americas						
Brazil	BRL	1.281789	+0.0064	+0.50	-0.0006	-0.05
Canada	CAD	1.629750	+0.0081	+0.50	-0.0024	-0.15
Mexico	MXN	9.958475	+0.0116	+0.12	+0.0990	+1.00
United States	USD	1.108221	+0.0053	+0.48	-0.0023	-0.21
Pacific/Middle East/Africa						
Australia	AUD	1.789688	-0.0229	-1.26	-0.0350	-1.92
Hong Kong	HKD	8.587162	+0.0410	+0.48	-0.0118	-0.14
Japan	JPY	153.804472	-2.3720	-1.52	-0.5783	-0.37
Singapore	SGD	1.872340	-0.0181	-0.96	+0.0394	+2.15
South Africa	ZAR	6.527423	-0.0130	-0.20	+0.4583	+7.55

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0398, ESP 0.0648, IEP 0.0118, PTE 0.0155, ATS 0.0328, FIM 0.0187.

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

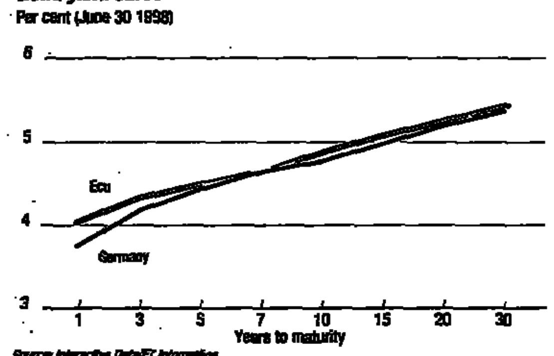
Bilateral conversion rates against the D-Mark

Jun 30	Fixed rate	Market rate	Diff fxd v mkt%	Week ago %	Forward rate	Forward Int rate	Diff Int rate v DEM
Austria	7.03552	7.0355	+0.00	+0.00	7.0376	3.75	+0.06
Belgium	20.6255	20.615	-0.05	+0.01	20.6207	3.75	+0.06
France	3.35386	3.3496	-0.13	-0.07	3.3495	3.68	-0.01
Finland	3.04001	3.0396	-0.01	-0.02	3.0421	3.85	+0.16
Ireland	0.403676	0.3972	-1.36	-1.38	0.4018	6.01	+2.32
Italy	990.002	984.7922	-0.53	-0.51	990.3207	4.82	+1.13
Luxembourg	20.6255	20.615	-0.05	+0.01	20.6207	3.75	+0.06
Netherlands	1.12674	1.127	+0.02	+0.04	1.1266	3.62	-0.07
Portugal	102.505	102.338	-0.16	-0.11	102.5843	4.17	+0.48
Spain	85.0722	84.8144	-0.30	-0.33	85.0777	4.31	+0.62
Germany	1		+0.00	+0.00		3.69	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff Int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98: DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve
Per cent (June 30 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

Jun 30	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	106.090	4.94	+0.00	-0.07	+0.05
France (Rep of)	04/08	5.250	N/A	103.110	4.84	+0.01	-0.08	-0.05
Italy (Rep of)	05/08	5.000	AA	100.150	4.95	+0.01	-0.05	+0.09
Portugal (Rep of)	06/08	5.375	AA-	102.980	4.99	+0.02	-0.05	+0.10
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	100.950	4.64	+0.00	-0.04	+0.15
Dex Electric Cap Crp	10/04	5.500	AAA	104.040	4.73	+0.02	-0.10	+0.16
Oest Kontrollbank	04/08	5.250	AAA	101.930	4.99	+0.01	-0.06	+0.10
Cred Local de France	04/08	5.250	AA+	101.350	5.07	-0.06	-0.14	+0.18
Ecu Issues								
Bayer Hypo Vr Wch Bk	07/01	5.000	A+	101.370	4.50	+0.02	-0.02	+0.17
Cred Foncier France	03/04	8.375	A	115.440	5.17	+0.01	-0.10	+0.60
Euro Inv Bank	04/04	5.250	AAA	103.560	4.53	+0.02	-0.08	-0.04
ABN Amro Hldg. NV	04/07	5.375	AA-	107.500	5.23	+0.02	-0.04	+0.40

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Euro "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecu but convert to Euro 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

Jun 30	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.03	+0.01	+0.09	+0.02	-0.01	+0.03
Belgium	-0.05	+0.04	+0.10	+0.05	+0.01	+0.08
Finland	-0.13	+0.07	+0.09	+0.05	-0.32	-0.49
France	-0.14	-0.05	-0.06	-0.04	-0.07	-0.04
Germany	-0.18	-0.08	-0.02	-0.12	-0.06	-0.06
Ireland	+0.80	+0.18	+0.12	+0.17	+0.11	+0.26
Italy	-0.29	+0.25	+0.21	+0.18	+0.16	+0.18
Luxembourg	-0.65	+0.04	+0.10	+0.08	+0.01	+0.08
Netherlands	-0.12	-0.02	-0.02	-0.05	-0.04	-0.04
Portugal	+0.12	+0.17	+0.19	+0.16	+0.26	+0.38
Spain	+0.00	+0.12	+0.13	+0.18	+0.14	+0.32
"OUTs"						
Denmark	+0.11	+0.17	+0.18	+0.08	+0.00	+0.13
Greece	+6.47	+4.55	+3.59	+2.86	+2.49	+2.32
Sweden	+0.10	+0.14	+0.17	+0.10	+0.09	-0.08
UK	+2.78	+1.77	+1.30	+0.91	+0.40	+0.01

Source: Interactive Data/FT Information. Table shows maximum convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Jun 30	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/08	5.000	DEM	+0.02	-0.01	-0.03
France Telecom	AA-	11/06	6.250	FRF	+0.17	+0.15	+0.18
Halifax	AA	07/07	5.625	DEM	+0.19	+0.19	+0.17
Ing Bank NV	AA-	01/08	5.500	NLG	+0.18	+0.19	+0.16
Bayer Hypo Vr Bk	AA-	02/02	5.750	ITL	-0.32	-0.26	+0.27
Cred Foncier	A	03/03	7.250	DEM	+0.37	+0.35	+0.37
Thomson-Brandt Int	A-	05/04	5.375	FRF	+0.39	+0.35	+0.29
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.32	+0.27	+0.26
Bank of China	BBB	07/06	7.125	DEM	+0.69	+0.64	+0.56
Natl Bk of Hungary	BBB-	06/01	8.000	ATS	+0.67	+0.63	+0.73
Korea Dev Bank	B+	11/02	5.625	FRF	+5.87	+4.56	+4.46

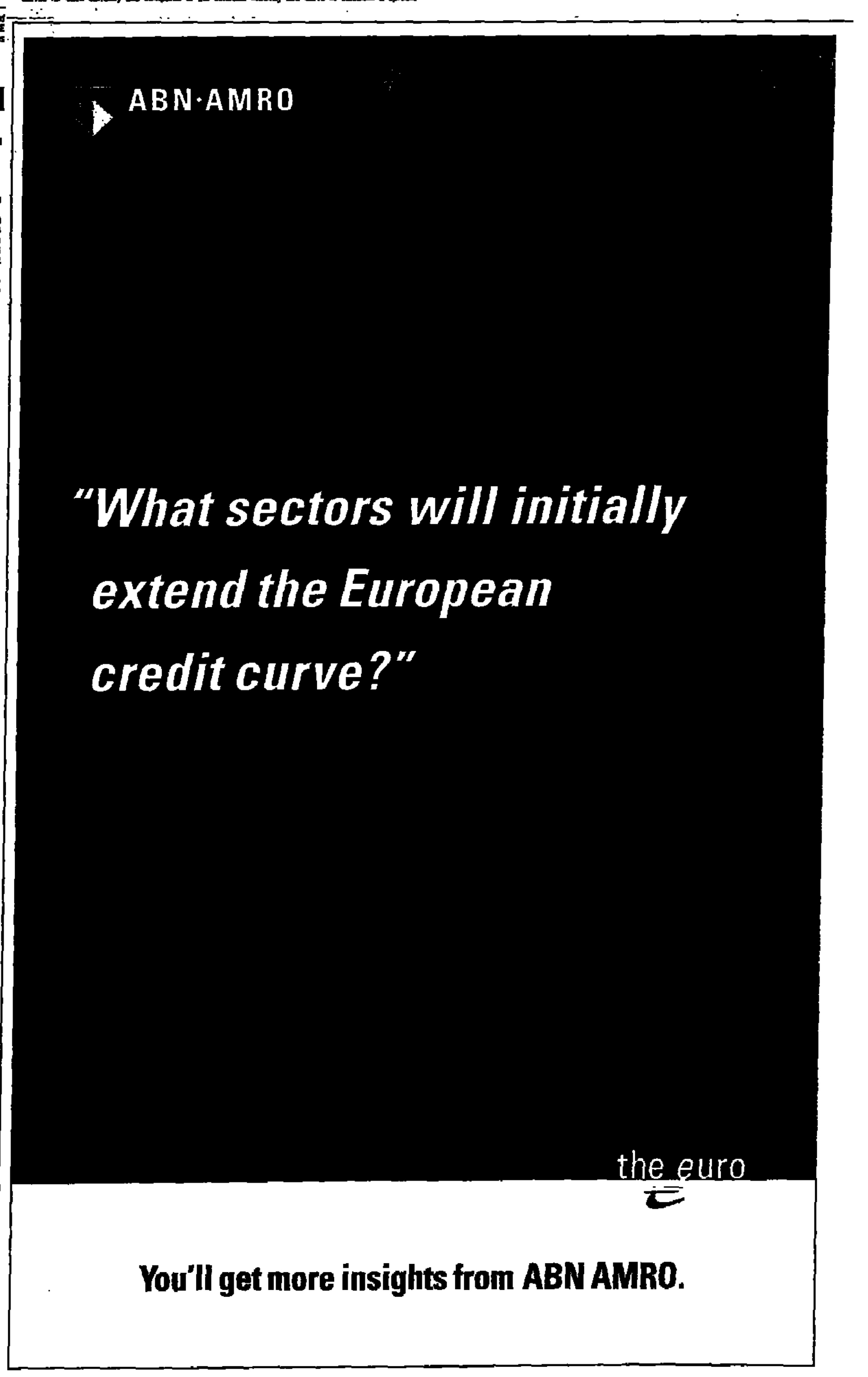
Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each ceiling level denominated in Euro "in" currencies.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
Allied-Domq	8.56	-1	8.9	1.4	4.4
DISTRIBUTORS					
Adidas-Salomon	156.85	-2.9	7.1	0.1	0.5
Boc Group	7.14	-1	3.1	0.7	2.4

AUTOMOBILES — BANKS RETAIL — BREWERIES, PUBS & RESTAURANTS — BUILDING MATERIALS & MERCHANTS — CHEMICALS — CONSTRUCTION — DIVERSIFIED INDUSTRIALS — ELECTRICITY — ELECTRONIC & ELECTRICAL EQPT. — ENGINEERING — EXTRACTIVE INDUSTRIES — FOOD PRODUCERS — GAS DISTRIBUTION — HEALTH CARE — HOUSEHOLD GOODS & TEXTILES — INFORMATION TECHNOLOGY — INSURANCE — INVESTMENT COMPANIES — LEISURE & HOTELS — LIFE INSURANCE — MEDIA — OIL, EXPLORATION & PRODUCTION — OIL, INTEGRATED — OTHER FINANCIAL — PAPER, PACKAGING & PRINTING — PHARMACEUTICALS — PROPERTY — RETAILERS, FOOD — RETAILERS, GENERAL — SUPPORT SERVICES — TELECOMMUNICATIONS — TOBACCO — TRANSPORT — WATER

Notes
Prices and market capitalisations supplied by FTSE International. Market capitalisation figures are based on shares used in index calculations.



INTERNATIONAL CAPITAL MARKETS

Gilts rise on interest rate hopes

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Continental European prices ended lower yesterday on a spurt of yen strength and fragile optimism that Japan *may be closer to rescuing its* troubled economy.

However, volume was thin and trading was bound in tight ranges as the spectre of central bank intervention still stalked markets.

Gilts took a different tack, ending higher on a perception that the Bank of England might not raise interest rates next week.

Lower Japanese bond prices early in the day were an important factor in early weakness in Europe but the release of Chicago purchasing data from the US offered some support.

Investors ignored news of a US missile attack on an Iraqi radar installation and the inauguration of the European Central Bank.

Analysts say there is still *a bedrock of support for* bonds as structural problems remain in Japan and core European countries are enjoying a low inflation environment.

"The bigger picture for Euroland is that growth has subsided somewhat compared to the turn of the year and with the absence of inflation and the wider global background, an early Bundesbank tightening [of interest rates] is off the agenda. That's good for bonds," said Andy Bevan, international bond economist at Goldman Sachs.

US TREASURIES were slightly lower by early afternoon, in spite of a surprisingly weak report by the Purchasing Management Association of Chicago.

The benchmark 30-year bond was down $\frac{3}{16}$ to 106⅝, yielding 5.659 per cent. Among shorter maturities the two-year note was unchanged at 99¾, yielding 5.509 per cent, while the 10-year note was ⅛ lower at 101¼, yielding 5.475 per cent.

The Chicago report's business barometer fell to 52.9 in June, down from 56.3 in May and the lowest level of the year. The prices paid, production, and new orders components each fell back.

"It's compelling evidence that the Asian effect is not only present but that its pull is getting stronger on the US economy," said Patrick Dimick, Treasury analyst at UBS Securities in New York.

The market's fall in reaction to the report was taken as further evidence that it is still focusing on the direction of the yen. "It's a sign that we're very worried that intervention is imminent," Mr Dimick said.

GERMAN BUNDS had a quiet day, with the benchmark September 10-year bund future settling 0.10 points lower at 108.36 in thin volume of 288,000 contracts traded in Frankfurt.

In UK GILTS, the market rose on perceptions that an interest rate rise may not be imminent, but there was little of substance to move prices.

Julian Jessop, chief European economist at Nikko, said that there was a growing perception in some quarters that the Bank of England might not raise interest rates next week – as widely feared – while sterling remained above DM3.

"There's perhaps a feeling creeping in that the strength of the currency is directing the timing [of a rate rise] for them," he said.

The September 10-year gilt future settled up 0.15 points at 108.68 in volume of 39,000 contracts traded.

In the cash market, the yield spread over German bunds narrowed three basis points to 117 points.

Moody's buys into Korean agency

By Simon Davies

Moody's Investors Service is taking a significant investment in one of Korea's leading credit rating agencies, Korea Investors Service.

The move follows recent attempts by the Korean government to open up its capital markets to international investors, which is expected to lead to increased demand for Korean ratings.

The international credit rating agencies attracted significant criticism during the Asian crisis, as they failed to predict the extent of the crisis and were considered by many to have over-reacted afterwards. Korea's domestic rating agencies were also singled out for failing to spot some of the corporate casualties in the domestic market.

Ironically, however, the volatility that followed the currency and bond market turmoil in Asia is likely to increase demand for corporate bond ratings in the region, as investors look for independent analysis.

KIS is spinning-off its rating division, in which it will be the biggest shareholder, with Moody's taking an unspecified minority holding in the company.

Tae-Jun Song, president of KIS, said: "There is a growing demand for a reliable and consistent credit rating system in Korea. By sharing the resources and expertise of Moody's, Korea Investors Service will play an integral role in building the credibility and credit rating knowledge leading to the ongoing development of Korea's domestic financial markets."

The joint venture will concentrate on rating domestic bonds. KIS is owned by more than 70 Korean financial institutions.

Euribor pricing for AHB deal

INTERNATIONAL BONDS

By Edward Luce and Vincent Boland

AHB, one of Germany's *largest mortgage* banks, yesterday set a precedent by pricing a bond denominated in euro against Euribor. It is the first issuer to choose the Brussels-inspired benchmark over the better known Libor reference rate set by the British Bankers Association.

However, as Euribor will not come into existence until after the start of European monetary union next January, the first two (quarterly) coupon payments will be priced off the ecu-Libor rate.

"We did not have one complaint or inquiry from investors about the borrower's choice of Euribor," said Roman Schmidt, at Barclays Capital, lead manager of the E500m floating-rate offering. "This is a vote of confidence in Euribor."

The bond, which was also the first FRN in euros by a German mortgage bank, was trading flat to its re-offer price last night.

ILE DE FRANCE, the French department, became the second European region after Lazio to issue a euro-denominated bond, in a E200m offering. The 12-year bond, priced to yield 18 basis points over the curve, was the region's first international offering in any currency since 1995.

The bond, lead-managed by Paribas, was trading flat to re-offer last night.

LLOYDS BANK of the UK *continued the global drive* into the D-Mark denominated market with a first subordinated debt transaction in a European currency for some time.

Priced to yield 52 basis points over the January 2008 German bund – effectively 50bp over the bund yield curve – the Lloyds bank bond had tightened by *between a half and one basis* point late yesterday.

A syndicate banker at Goldman Sachs, joint lead manager with Lehman Brothers, said the pricing was "fairly much in line with where Lloyds is in the sterling market".

The bond benefited from strong demand for D-Mark issues from fund managers and insurance companies.

"The quality of the deals coming to the D-Mark market is extremely high, and this is likely to be the benchmark for subordinated debt issues in this market," the banker said.

VODOHOSPODARSKA VYSTAVBA, the Slovakian state-owned water utility, issued a DM175m three-year bond through Nomura and Commerzbank in its second foray into the international capital markets.

The offering was priced at 399 basis points over the German Bobl of May 2001, roughly double the yield on the underlying benchmark.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Bistro 1998-2000, A(a)‡	851.1	(a1,s)	100.00	Jun 2003	0.21	-	JP Morgan Securities
Bistro 1998-2000, B1(a)‡	60	6.44#(s)	99.976	Jun 2003	undisci	+93(5%Jun03)	JP Morgan Securities
Bistro 1998-2000, B2(a)‡	119.2	(a2,s)	100.00	Jun 2003	undisci	-	JP Morgan Securities
D-MARKS							
Lloyds Bank	600	5.25	99.648R	Jul 2008	0.40R	+52(5¼Jan08)	Goldman/Lehman
Vodohospodarska Vystavba	175	8.00	99.61R	Jul 2001	0.75R	+399(May01)	Commerzbank/Nomura
ITALIAN LIRE							
European Inv'ment Bank(b)‡	200bn	(b1)	99.90R	99.90R	0.40R	-	BCI/Credito/JP Morgan
SWISS FRANCS							
Mobil Oil Canada	300	3.00(i)	102.30	Aug 2008	-	-	Warburg Dillon Read
EUROS(e)							
Allgemeine Hypo‡	*500*	*(c)*	*100.003*	*Jul 2000*	*0.10*	-	*Barclays Capital*
Ile de France	200	5.00	98.82R	Jul 2010	0.35R	+18(f)	Paribas
GREEK DRACHMA							
EBRD	10bn	7.00	98.75R	Jul 2005	0.275R	-	TD Securities

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Collateralised by US Treasury notes with portfolio credit default swap from MGT. a1) 3-mth Libor +25bp. a2) 3-mth Libor +50bp. b) Callable on 30/7/03 and 08 at par. b1) 8% in yr 1, 7% in yrs 2-3, 6% in yrs 4-5, then 15% - 2 x 12-mth Libor. c) 3-mth Libor flat. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) Over interpolated yield. i) Long 1st coupon. s) Short 1st coupon.

NEWS DIGEST

PRIVATISATION

Poland plans increase in size of telecoms offering

The Polish treasury has proposed increasing the size of the sale of Telekomunikacja Polska, the state telecommunications monopoly, in what is expected to be central Europe's largest capital markets transaction this year. The privatisation, which is expected to be made in late November, would be of up to 25 per cent of the company's shares, said Piotr Kaminski, director of corporate finance at the Securities and Exchange Commission.

A banker close to the deal said the offer would be of existing shares only, as proposed in a privatisation prospectus presented to the SEC on Monday. An additional percentage would be handed to employees but an offer structure and price range had not yet been discussed.

Schroders is to advise the government and act as global co-ordinator of the sale, which is expected to raise $2bn as part of Poland's privatisation programme. **Jeremy Grant**

TELEBRAS

Alternative for ADR holders

Holders of American depositary receipts (ADRs) in Telebrás, the Brazilian telecommunications network, can continue to own a single exchange-traded instrument after the company is split into 12 listed companies at the end of July.

Merrill Lynch, the US investment bank, has created Telebrás HOLDRs, which effectively recreate existing Telebrás ADRs and will represent each of the 12 new companies. The HOLDRs are depositary shares issued by the Bank of New York and will be listed on the New York Stock Exchange.

Mitch Cox, director in the private client group at Merrill Lynch in New York, said the HOLDRs would be "a convenient and easy way for investors to continue to own the Telebrás investment". The new security is expected to be issued and to begin trading on or about July 28.

Telebrás has the highest market capitalisation of any stock in Latin America and was the most actively traded ADR on the NYSE last year. **Vincent Boland**

EASDAQ

Benchmark index launched

Easdaq, the pan-European stock market for growing companies, today launches its official all-share index, EASI, to provide a benchmark for investors to measure the market's performance and enable the development of derivatives. Easdaq's 30 companies have a market capitalisation of $14.31bn and the EASI index was set at the close of business yesterday at 1,000 points. Jacques Putzeys, Easdaq chief executive, said the market has risen 174 per cent since the launch of an unofficial index on November 27 1996. **Vincent Boland**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

10 YEAR BENCHMARK SPREADS

EMERGING MARKET BONDS

BOND FUTURES AND OPTIONS

US CORPORATE BONDS

US INTEREST RATES

INTERNATIONAL BONDS

Jun 30	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO,DM								
EIB	02/07	5.750	AAA	106.1700	4.85	+0.01	-0.04	+0.09
Spain	01/07	5.750	AA	105.9000	4.88	+0.02	-0.06	+0.11
[illegible]								

UK BONDS

FTSE Actuaries Govt. Securities

UK Indices

FT Fixed Interest Indices

UK GILTS PRICES

Other Fixed Interest

هكذا من الاصل

Stronger yen gives market some relief

MARKETS REPORT

By Daniel Dombey

The markets decided that the news from Japan was mostly good yesterday, and the yen strengthened beyond Y140 against the dollar, although remaining close to the range at which the US Fed intervened earlier this month.

The currency ended the European trading day at Y138.8 against the dollar, strongly up from Y141.6 the day before.

Largely as a result, many of the emerging market and commodity-based currencies which have recently suffered alongside the yen also enjoyed a day of relative stability.

"We can be much more optimistic about the yen and this will spill through to emerging markets generally," said Paul Chertkow at Bank of Tokyo-Mitsubishi. "We now have a reasonable prospect that Japan's banking problem is being addressed."

The markets took heart from an unprecedented legal action against Sumitomo Bank for allegedly falsifying credit information.

The step is seen as indicating Japan's willingness to reform its financial sector, and comes after Ryutaro Hashimoto, prime minister, moved up the schedule for plans to announce a new bridge bank to take over lending to the customers of failed banks.

Japan's banking crisis is seen as particularly important since without new lending, the country is likely to take much longer to emerge from its current recession.

However there was a less positive reaction to a cut in Chinese lending rates by an average of 1.12 percentage points. The possibility of a Chinese devaluation is widely thought to have been one of the main considerations behind Washington's intervention to defend the yen earlier this month. The cut in rates may indicate that Chinese authorities are still looking for ways to boost the country's slackening growth rate.

■ After losing patience with Japan so often in the past, the markets have been pleasantly surprised by the details of the bridge bank plan that have emerged.

However, figures which put Japan's unemployment rate above that of the US were a reminder of the country's problems.

In a speech to party and government officials Mr Hashimoto called for a system which would put a bank under government supervision as soon as it failed.

According to party plans, the bank would act as a way-station for all the loans on a failed bank's books, shunting healthy assets to a successor bank while handing over bad loans to the country's existing Resolution and Collection Bank.

Tomomitsu Obu, a former finance ministry official, speculated yesterday that concerted intervention on foreign exchange markets might follow the formal announcement of the bridge bank plans tomorrow.

"The Japanese have taken the initiative and that's positive," said Gerard Lyons at DKB International in London.

"The markets now realise that intervention might occur again."

But Marc Chandler at Deutsche Bank in New York argued the yen's better performance in recent days was partly a technical correction. "Some people have called in their dollars and taken profits. But there are still a lot of dollar bulls who have made so much money that they can sit this one out and wait for the yen to fall again," he added.

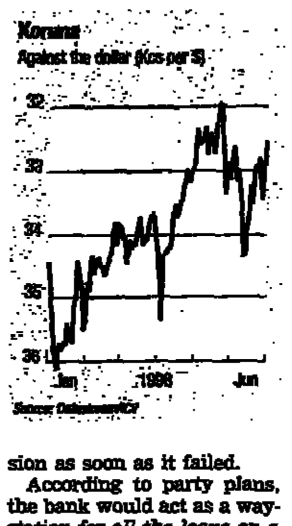
■ The D-Mark gained almost a pfennig against the dollar, to DM1.805, and as much against the pound, to DM3.012, as Russian markets calmed ahead of a parliamentary review of the government's crisis plan.

Russia has strong trade and banking relationships with Germany and the D-Mark has become sensitive to the rouble's travails.

■ The Fed began a two day meeting which is not expected to increase interest rates in the light of the Asian crisis. The dollar briefly rose after a US warplane fired a missile at an Iraqi radar site.

Analysts said that the faintest hint of military action often caused a nervous rush to the dollar.

Meanwhile the rand was almost unchanged at R5.89 against the dollar.



■ **POUND IN NEW YORK**

Jun 30	—Latest—	— Prev. close —
£ spot	1.6695	1.6655
1 mth	1.6667	1.6627
3 mth	1.6610	1.6570
1 yr	1.6370	1.6325

■ **OTHER CURRENCIES**

Jun 30	£	$
Czech Rp	54.4218 - 54.4795	32.6270 - 32.6420
Hungary	364.758 - 365.311	218.680 - 218.880
Iran	5007.00 - 5004.00	3000.00 - 3000.00
Kuwait	0.5109 - 0.5117	0.3063 - 0.3066
Peru	4.9006 - 4.9085	2.9380 - 2.9410
Poland	5.8121 - 5.8240	3.4845 - 3.4895
Russia	10.3800 - 10.3979	6.2290 - 6.2390
U.A.E.	6.1262 - 6.1306	3.6728 - 3.6732

WORLD INTEREST RATES

MONEY RATES

POUND SPOT FORWARD AGAINST THE POUND

Jun 30		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA
Europe								
Austria	(Sch)	21.1583	–0.056	753 - 013	21.2233	21.1389	21.1175	4.0
Belgium	(BFr)	62.0649	–0.1974	329 - 369	62.3290	62.0010	61.8636	3.9
Denmark	(DKr)	11.4743	–0.025	625 - 861	11.4941	11.4466	11.4407	3.5
Finland	(FM)	9.1542	–0.0224	470 - 613	9.1710	9.1390	9.1239	4.0
France	(FFr)	10.0678	–0.0289	831 - 924	10.1117	10.0720	10.0535	4.1

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.5542	0.5557	+0.0016	0.5589	0.5540	14,182	90,099
Dec	0.5593	0.5594	+0.0025	0.5598	0.5578	5	554
Mar	–	0.5594	–	–	–	–	8

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6602	0.6633	+0.0034	0.6643	0.6602	8,985	81,765
Dec	0.6697	0.6701	+0.0043	0.6703	0.6685	13	234
Mar	–	0.6715	–	–	–	–	5

UK INTEREST RATES

LONDON MONEY RATES

Jun 30	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	8 - 5½	7½ - 7	7⅞ - 7¾	7⅞ - 7¾	7⅞ - 7⅞	8⅛ - 7⅞
Sterling CDs	-	-	7⅞ - 7¾	7⅞ - 7⅞	7⅞ - 7⅞	7⅞ - 7⅞
Treasury Bills	-	-	7½ - 7⅞	7½ - 7⅞	-	-
Bank Bills	-	-	7½ - 7⅞	7½ - 7⅞	7½ - 7⅞	-
Local authority deps.	7⅛ - 5	7½ - 7⅛	7⅞ - 7⅞	7⅞ - 7⅞	7⅞ - 7⅞	7⅞ - 7⅞
Discount Market deps	7⅞ - 7½	7⅞ - 7½	-	-	-	-

UK clearing bank base lending rate 7½ per cent from Jun 4, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Jun 26, 7.3692pc. ECGD fixed rate Stg. Export Finance. Make up day Jun 30, 1998. Agreed rate for period Jul 26, 1998 to Aug 25, 1998, Scheme III 8.07pc. Reference rate for period May 30, 1998 to Jun 30, 1998, Schemes IV & V 7.441pc. Finance House Base Rate 8pc from Jul 1, 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	92.070	92.100	+0.020	92.110	92.070	19874	167985
Dec	92.110	92.150	+0.030	92.150	92.110	25473	177696
Mar	92.270	92.310	+0.030	92.320	92.260	20548	128420
Jun	92.500	92.530	+0.020	92.550	92.500	13491	118083
Sep	92.710	92.730	+0.010	92.730	92.690	7079	80057

Also traded on APT. All Open Interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
92125	0.105	0.160	0.315	0.130	0.260	0.255
92250	0.060			0.210		
92375	0.030			0.305		

Est. vol. total, Calls 4360 Puts 5086. Previous day's open int., Calls 425166 Puts 282259

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	●Singer & Friedlander	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	●Smith & Williamson	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	Sun Bank	7.50
Banco Bilbao Vizcaya	7.50	●Guinness Mahon	7.50	TSB	7.50
Bank of Cyprus	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Ireland	7.50	●Hambros Bank	7.50	Unity Trust Bank Plc	7.50
Bank of India	7.50	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of Scotland	7.50	C. Hoare & Co	7.50	Yorkshire Bank	7.50
Barclays Bank	7.50	Hongkong & Shanghai	7.50		
Brit Bk of Mid East	7.50	Investec Bank (UK) Ltd	7.50		
●Brown Shipley & Co Ltd	7.50	Julian Hodge Bank	7.50		
Citibank NA	7.50	●Leopold Joseph & Sons	7.50		
Clydesdale Bank	7.50	Lloyds Bank	7.50		
The Co-operative Bank	7.50	Midland Bank	7.50		
Coutts & Co	7.50	NatWestminster	7.50		
Cyprus Popular Bank	7.50	●Rea Brothers	7.50		
Duncan Lawrie	7.50	Royal Bk of Scotland	7.50		
		Scottish Widows Bank	7.50		

● Members of London Investment Banking Association

LONDON STOCK EXCHANGE

Equities suffer from Wall Street's downturn

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The last day of a difficult month and quarter for London's equity market saw UK share prices retreat to close around the session's lowest levels, burdened by a sell-off on Wall Street at the outset of US trading yesterday.

There remained real concern among London traders and fund managers that the next adjustment in UK interest rates, marshalled by the Bank of England's monetary policy committee, could be upwards. That would bring renewed pressure on industrial borrowers and further anxieties for manufacturers and exporters worried about the possible further appreciation of sterling.

Dealers said the weakness of London owed much more to a general reluctance by UK fund managers to get involved in the stock market ahead of some crucial economic news on both sides of the Atlantic.

But, if truth be told, the real reluctance to trade in London came from the anxiety of marketmakers and dealers to close their trading books as early as possible in order to get home and ready for the kick-off of the England-Argentina clash in the football World Cup.

"This is the real thing as far as the competition goes: the excitement level is lifting every second, its quite extraordinary," said the head of sales at one big European securities house.

The FTSE 100 index finished the session 52.0 lower at 5,832.5, not far from the session low of 5,825.0 reached about thirty minutes before the close.

And there was similar rough treatment for the market second-liners and small-cap stocks, which extended their recent poor performances.

However, some of the recently depressed engineering stocks and exporters drew comfort from broker recommendations pointing out that the recent selling of the sectors had been overdone.

The FTSE 250 index threatened to plunge through the 5,540 level, eventually closing a shade above that level, down 17.5 at 5,503.8, its 14th loss in 15 sessions. An early attempt by the sector to make progress ran into some determined selling. At its worst, the 250 index was down 18.5.

Similarly the small-cap stocks succumbed to waves of selling pressure, with that index closing down 11.3 at 2,606.4, the day's low.

Noting the relative performances of the various indices, David Manning, head of UK equities at Foreign & Colonial Institutional, said: "At the stock selection level, the UK's last quarter looks like a classic case of irrational exuberance.

"It does not seem so bad on the downside. If you look at stocks like Standard Chartered or Billiton, there are fundamental reasons for downgrades there."

On the short-term outlook, Mr Manning said: "There are quite a few uncertainties that could trip up the market. Problems in Asia and Japan are serious and could cause global difficulties. London is not in control of its destiny any more. I can't help feeling there is a chance of a setback in the markets."

Turnover in equities at the 6pm cut-off point was 834.7m shares, with non-Footsie stocks accounting for 59 per cent of the overall figure.

FTSE All-Share Index / Equity shares traded — Turnover by volume (million)

Indices and ratios

FTSE 100	5832.5	-52.0	FT 30	3790.2	-26.4
FTSE 250	5503.8	-17.5	FTSE Non Fins p/e	22.03	22.17
FTSE 350	2812.0	-22.1	FTSE 100 Fut Sep	5855.0	-57.0
FTSE All-Share	2743.46	-20.93	10 yr Gilt yield	5.84	5.88
FTSE All-Share yield	2.87	2.85	Long gilt/equity yld ratio	2.02	2.04

Best performing sectors

1 Diversified Industrials +1.7
2 Water +0.8
3 Breweries, Pubs & Rest +0.3
4 Insurance +0.3
5 Electronic & Elect Equip +0.2

Worst performing sectors

1 Extractive Industries -1.6
2 Food Producers -1.5
3 Other Financial -1.4
4 Pharmaceuticals -1.4
5 Property -1.3

Bid news boosts Thorn

COMPANIES REPORT

By Joel Kibazo, Peter John and Martin Brice

News of a recommended £980m cash offer for Thorn from Nomura International just minutes before the market close, triggered a rush for the shares and brought a turnaround in the fortunes of the stock.

Until the final 15 minutes, it had been an uneventful day with the shares languishing a penny off at 209¼p in modest volume of 3.1m.

However confirmation of the 250p-a-share recommended offer from Nomura in the last minutes of the trading day, triggered a wave of interest, sending the shares soaring.

The stock gained 19¾ or 9.3 per cent to 230p, the best performer in the FTSE 250 index in volume of 40m, by far the most actively traded issue.

Shares in the troubled UK group have tumbled from 410p when it was demerged from EMI in August 1996. Having hit a low of 135p, the stock rallied in April after a takeover approach.

Last month, Thorn sold its US operations for £545m promising to return a substantial amount of the proceeds to shareholders.

Gallaher improved 9¾ to 331¼p as one US broker upgraded its stance on the stock on perceptions that the US regulatory regime has become more benign.

The tobacco group does not operate in the US, but Morgan Stanley says the shares are 60 per cent owned by US investors and any tightening of the law against tobacco groups always hits sentiment.

Recently, a verdict on behalf of an individual and against the industry was overturned in the US. Also, the McCain bill, which would require tobacco groups to pay out more than $500bn over 25 years to settle outstanding lawsuits with states as well as imposing tough new controls on nicotine regulation, appears unlikely to get approval in the short term.

Furthermore, the company briefed analysts on Monday ahead of its closed season and apparently said trading was going well.

Morgan upgraded its recommendation to "strong buy" from "outperform" and put a 400p price target on the stock.

Standard Chartered slipped as Dresdner Kleinwort Benson stressed its sell stance ahead of the banks' reporting season, which begins on July 23.

In spite of heavy falls over recent months because of the bank's heavy exposure to Asia, Dresdner believes the stock could easily slide another 25 per cent. The broker has a 500p target. The shares dropped 19 to 681p.

The rest of the sector was also weak. Barclays was the subject of speculation in early dealing that it might be planning a merger with Commerzbank or considering taking a stake in the German bank. But rumours of a tie-up have been around for a long time and were strenuously denied. Barclays dipped 7 to £17.28, although it outperformed the market as Dresdner upgraded its stance from "hold" to "add".

Elsewhere, there was some nervousness about a television consumer programme apparently featuring Halifax and NatWest. Shares in the two banks fell 15 to 778p and 13 to £10.71 respectively, but analysts said the consumer concerns were less significant than the overall market pressure.

WPP, the latest addition to the Footsie, improved 6 at one stage on the back of Monday's strong annual general meeting statement. The company highlighted 9 per cent growth in Asia on a constant currency basis.

Analysts expect the company to report full-year figures of £205m but some are considering 5 per cent upgrades if the present upbeat trend continues. The shares closed firmer at 392¾p.

High yields and low ratings ensured that leading water stocks avoided the Wall Street-inspired weakness in London. Severn Trent lifted 18½ to £10.49½ and Thames was up 20 at best before closing 10 higher at £10.91. United Utilities ended the day 8 better at 871½p.

Coats brisk

Coats Viyella saw brisk business of 7.1m as the stock was down a penny at 74p following a bearish trading statement. The company focused on the continued strength of sterling, a mixed underlying trading performance and subdued demand in the UK high street.

The gloomy view of UK demand also hurt sentiment in Allied Textile, which shed 3½ to 128p.

More bad news from the textile industry came from Dawson International, which said it was to close two factories and shed 720 jobs. The stock lost 3 to 43p.

Engineering stocks put in a good performance as investors took on board the view expressed recently that the fall in many of the sector's stocks on fears of Asian turmoil had been overdone. Sentiment in exporting manufacturers was helped by a slight weakening of sterling, although it remained above the DM3 level.

Dresdner Kleinwort Benson's FTSE 250 team told clients: "The fall of the magnitude seen in engineering share prices in June is inevitably exaggerated and indiscriminate. In the weeks ahead, we expect greater differentiation to appear as investors seek defensive positions."

Among its favoured stocks were TI, which spent much of the day in positive territory before a late trade saw it close off 4 at 455p; IMI, which gained 4 to 371½p, and BBA, which rose 2 to 452p.

The best performer in the Footsie was Tomkins, which gained 11¼ to 325¼p, while LucasVarity advanced 5 to 238p.

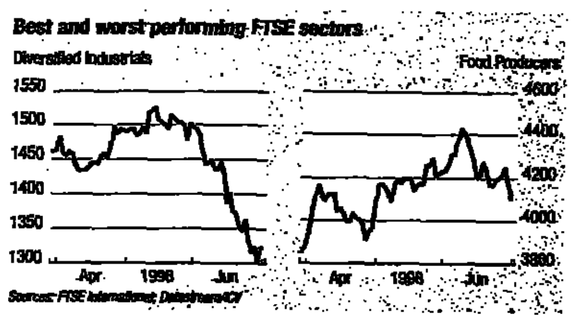
ARM Holdings, the microchip group, was the best FTSE 250 performer until a late surge by Thorn. ARM rose 80 to £11.85 after it joined the FTSE 250 index replacing Christie's International. Acorn Group, which owns 25 per cent of ARM, was up 2½ at 134¼p.

Sentiment in ARM was also helped by hopes that its chips would be used in mobile telephones equipped with Psion's EPOC operating system.

Psion shed 42½ to 650p. One US investment bank has set a price target of £10.

PIC International, the rump of the old Dalgety, gained 10 to 225p, with sentiment helped by some buying by directors.

Sir Denys Henderson almost doubled his stake by paying 219p each for 100,000 shares. On Monday he paid 215p each for 10,000 shares.



Best and worst performing FTSE sectors — Diversified Industrials / Food Producers

Source: FTSE International; Datastream/ICV

FT 30 INDEX

	Jun 30	Jun 29	Jun 26	Jun 25	Jun 24	Yr ago	*High	*Low
FT 30	3790.2	3816.6	3819.2	3803.9	3797	3038.6	3928.3	3785.6
Ord. div. yield	2.94	2.92	2.92	2.93	2.94	3.53	4.22	2.79
P/E ratio net	23.39	23.60	23.61	23.50	23.43	18.30	25.41	15.80
P/E ratio nil	23.18	23.39	23.40	23.29	23.22	18.12	25.19	15.71

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3816.5	3813.0	3799.9	3802.7	3806.2	3803.3	3802.0	3792.7	3787.7	3828.1	3785.6

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STOCK MARKET TRADING DATA

	Jun 30	Jun 29	Jun 26	Jun 25	Jun 24	Yr ago
SEAQ bargains	61,854	64,464	55,976	76,280	80,176	53,281
Equity turnover (£m)†	-	2638.3	2531.1	3081.21	2831.5	1982.7
Equity bargains†	-	52,545	45,941	51,232	48,707	41,664
Shares traded (ml)†	-	737.3	737.3	808.41	768.5	531.7
Total market bargains†	-	68,761	57,456	61,232	60,643	-
Total turnover (£m)†	-	3565.4	3707.5	3081.2	4028.3	-
Total shrs traded (ml)†	*824.7	944.2	958.1	1085.8	1026.3	-
Tradepoint turnover (£m)	22.13	29.5	41.3	28.4	41.1	3.8
Tradepoint shrs traded	8.1	7.4	10.9	4.5	10.4	0.6

†Excluding intra-market and overseas turnover. *Including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover. (Corrected figures)

London market data

Rises and falls		52 Week highs and lows		LIFFE Equity options	
Total Rises	623	Total Highs	37	Total contracts	21,646
Total Falls	934	Total Lows	94	Calls	11,326
Same	1,431			Puts	10,320

Jun 30 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5860.0	5881.0	-56.0	5961.0	5862.0	18472	158420
Dec	5937.0	5953.0	-52.0	5997.0	5897.0	30	863
Mar		6035.0	-56.0			0	50

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5640.0	5635.0	-5.0	5640.0	5635.0	25	5641

FTSE 100 INDEX OPTION (LIFFE) (*5829) £10 per full index point

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

LONDON RECENT ISSUES: EQUITIES

FTSE GOLD MINES INDEX

FTSE Actuaries Share Indices

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 30	Day's chge%	Jun 29	Jun 26	Year ago	Gross yield%	Net yield%
FTSE 100	5832.5	-0.9	5884.5	5877.4	4728.3	2.82	2.38
FTSE 250	5503.8	-0.3	5521.3	5522.3	4462.5	3.02	2.56
FTSE 250 ex IT	5560.9	-0.3	5588.6	5572.4	4454.9	3.11	2.64

FTSE Actuaries Industry Sectors

Hourly movements

TRADING VOLUME

Major Stocks yesterday.

FTSE INTERNATIONAL

هكذا من الاصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA
(FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

BERMUDA
(REGULATED)(**)

GUERNSEY
(FSA RECOGNISED)

GUERNSEY
(REGULATED)(**)

IRELAND
(FSA RECOGNISED)

Swiss Life Investment Fund – Proteus (u)

Tilney (Ireland) Ltd

Fleming Private Fund Plc

Foreign & Colonial Emerging Markets Ltd

Formosa High Tech Fund

Framlington Investment Mgmt (Ireland) Ltd

IRELAND
(REGULATED)(**)

ABN AMRO Global Liquidity Funds Plc (u)

AIB Fund Management Ltd

Frank Russell Investments (Ireland) Ltd

ISLE OF MAN
(FSA RECOGNISED)

ISLE OF MAN
(REGULATED)(**)

JERSEY
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Royal & Sun Alliance Intl Financial Services

Atlantic Investment Management, Inc

Daiwa Intl Capital Management (U.K.) Ltd

Glenn Capital Limited

Indocam Asia

Magnum Funds - Contd.

PFPC International Ltd

Sloane Robinson Investment Mngmt Ltd

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

HOUSEHOLD GOODS & TEXT - Continued

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الأصل

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Continued

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		[illegible]	[illegible]	[illegible]	[illegible]	-	5.5	6.8
Barlow R	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	4.0	9.7
Gold Flds Prop R		[illegible]	[illegible]	197	[illegible]	-	6.8	12.2
SA Breweries R		[illegible]	[illegible]	[illegible]	[illegible]	-	2.7	18.5
Standard Bank R		[illegible]	[illegible]	[illegible]	[illegible]	-	1.5	-
Tiger Oats	†	[illegible]	[illegible]	[illegible]	810	-	2.7	13.5
Tongaat-Hulett R		447½	-9	780	447½	-	3.2	17.5

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAKRS		[illegible]	—	[illegible]	£472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of Suspension
- , Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on assumed dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1998-99. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1998. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. R Dividend is paid in whole or part as a FID (Foreign Income Dividend). S Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xs ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 30 / Sch)

BELGIUM/LUXEMBOURG (Jun 30 / Frs.)

CZECH REP (Jun 30 / Koruna)

DENMARK (Jun 30 / Kr)

FINLAND (Jun 30 / Mkk)

FRANCE (Jun 30 / Frs.)

GERMANY (Jun 30 / Dm.)

GREECE (Jun 30 / Drachma)

ITALY (Jun 30 / Lira)

NETHERLANDS (Jun 30 / Fls.)

NORWAY (Jun 30 / Krone)

POLAND (Jun 30 / Zloty)

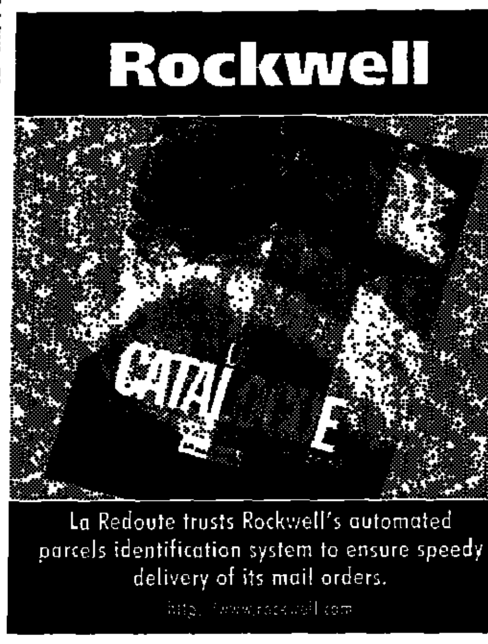
PORTUGAL (Jun 29 / Escudo)

SPAIN (Jun 30 / Pts.)

SWEDEN (Jun 30 / Kronor)

SWITZERLAND (Jun 30 / Frs.)

TURKEY (Jun 30 / Tk Lira)



PACIFIC

JAPAN (Jun 30 / Yen)

HONG KONG (Jun 30 / H.K.$)

INDONESIA (Jun 30 / Rupiah)

MALAYSIA (Jun 30 / MYR)

NEW ZEALAND (Jun 30 / NZ $)

SINGAPORE (Jun 30 / S$)

AUSTRALIA (Jun 30 / Aus$)

SOUTH KOREA (Jun 30 / Won)

TAIWAN (Jun 30 / TW $)

THAILAND (Jun 30 / Baht)

AFRICA

SOUTH AFRICA (Jun 30 / Rand)

AMERICAS

CANADA

TORONTO (Jun 30 / Can $)
4 pm close

MONTREAL (Jun 30 / Can $)
4 pm close

MEXICO (Jun 30 / Peso)
12:30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY JUNE 29 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY JUNE 26 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	184.23	1.0	164.02	164.90	173.68	201.38	0.5	3.94	182.46	162.66	164.63	171.68	200.47	243.87	173.27	237.47
Austria (23)	229.01	0.0	203.88	204.96	215.89	215.73	0.2	1.57	229.08	204.22	206.66	215.54	215.38	253.73	181.60	191.36
Belgium (24)	359.46	-0.7	320.02	321.74	338.87	331.54	-0.4	2.04	361.80	322.53	326.43	340.41	332.95	385.97	234.33	251.99
Brazil (26)	210.09	1.1	187.04	188.05	198.06	447.16	1.2	2.28	207.74	185.20	187.44	195.46	442.01	322.44	184.94	300.60
Canada (120)	233.83	1.1	208.18	209.29	220.43	248.95	1.2	1.62	231.27	206.17	208.66	217.60	245.99	248.78	199.10	206.02
Denmark (34)	497.57	0.0	442.98	445.36	469.06	467.30	0.2	1.38	497.53	443.54	448.89	468.12	466.36	521.81	375.32	384.26
Finland (28)	443.22	2.7	394.59	396.71	417.83	512.57	2.9	1.79	431.73	384.87	389.52	406.21	498.31	451.12	267.59	284.89
France (79)	328.04	0.5	292.05	293.62	309.25	312.60	0.7	1.88	326.33	290.92	294.43	307.04	310.54	335.75	217.48	234.43
Germany (58)	304.77	0.7	271.33	272.79	287.31	287.31	0.9	1.16	302.59	269.75	273.01	284.71	284.71	307.24	204.89	217.95
Greece (37)	273.97	1.0	243.91	245.22	258.28	601.27	1.2	1.54	271.31	241.87	244.79	255.28	594.36	307.94	260.24	-
Hong Kong, China (66)	246.86	-1.4	219.78	220.96	232.72	245.58	-1.4	6.42	250.47	223.29	225.99	235.67	249.19	580.03	218.76	539.23
Indonesia (27)	27.59	0.8	24.56	24.69	26.01	256.42	0.8	2.65	27.38	24.41	24.71	25.76	254.50	254.90	23.58	247.12
Ireland (16)	523.69	1.4	466.23	468.73	493.68	531.21	1.5	1.83	516.86	460.58	466.15	486.12	523.21	560.44	350.24	350.47
Italy (54)	159.16	1.4	141.70	142.46	150.05	212.38	1.6	1.32	157.03	139.99	141.68	147.75	209.13	177.15	95.46	97.21
Japan (480)	88.44	1.8	78.74	79.16	83.37	79.16	1.0	1.00	86.89	77.46	78.39	81.75	78.39	139.82	83.04	138.73
Malaysia (106)	114.74	-1.2	102.15	102.70	108.16	184.50	1.4	3.44	116.20	103.58	104.84	109.33	182.02	513.98	113.56	506.78
Mexico (29)	1319.22	0.8	1174.49	1180.80	1243.64	13008.00	0.5	2.06	1311.91	1169.53	1183.66	1234.36	12941.59	1901.98	1278.19	1598.88
Netherlands (20)	514.05	0.8	457.65	460.11	484.60	479.51	1.0	1.95	510.08	454.73	460.22	479.93	474.78	532.74	385.56	402.55
New Zealand (14)	57.39	-1.7	51.09	51.37	54.10	60.15	-1.4	5.06	58.39	52.05	52.68	54.94	60.98	98.47	56.33	92.63
Norway (38)	298.83	-0.3	266.05	267.48	281.71	311.97	-0.1	2.00	299.76	267.23	270.46	282.04	312.30	374.64	281.62	313.00
Philippines (22)	72.50	2.4	64.54	64.89	68.34	151.74	2.3	1.13	70.78	63.10	63.86	66.60	148.32	168.91	57.54	168.91
Portugal (18)	261.90	-0.8	233.16	234.42	246.89	332.61	-0.4	1.15	263.53	234.93	237.77	247.96	334.10	299.39	261.25	-
Singapore (42)	145.25	-2.9	129.32	130.01	136.93	114.73	-1.0	2.65	149.57	133.34	134.95	140.73	115.90	401.75	133.81	381.46
South Africa (40)	217.23	-2.5	193.40	194.44	204.79	281.56	-1.6	3.18	222.81	198.63	201.03	209.84	286.12	364.24	217.23	364.24
Spain (31)	383.90	0.9	341.78	343.62	361.91	447.52	1.2	1.72	380.38	339.10	343.19	357.89	442.02	398.54	238.28	266.07
Sweden (49)	588.79	0.1	524.19	527.01	555.06	694.21	0.2	1.89	588.24	524.40	530.73	553.47	692.61	615.21	439.98	485.89
Switzerland (28)	404.75	0.5	360.35	362.28	381.56	382.90	0.7	1.09	402.85	359.13	363.47	379.04	380.20	414.95	285.85	317.24
Thailand (38)	11.68	-3.7	10.40	10.46	11.02	19.25	-1.7	13.63	12.13	10.82	10.95	11.42	19.59	69.09	11.68	58.95
United Kingdom (205)	383.99	0.2	341.86	343.70	361.99	341.86	0.1	2.91	383.18	341.59	345.72	360.53	341.59	401.84	302.01	303.96
USA (630)	465.42	0.6	414.36	416.59	438.76	465.42	0.6	1.38	462.82	412.58	417.57	435.46	462.82	465.42	358.31	359.40
Americas (805)	418.93	0.8	372.97	374.98	394.93	354.45	0.6	1.41	416.47	371.28	375.76	391.86	352.35	418.95	326.79	328.95
Europe (742)	360.92	0.5	321.32	323.05	340.24	343.87	0.6	1.98	359.14	320.16	324.03	337.91	341.87	366.89	265.25	271.75
Eurobloc (351)	104.23	0.7	104.28	110.93	108.22	108.21	0.9	1.60	103.47	103.66	111.00	105.24	105.23	108.98	99.54	-
Nordic (149)	513.79	0.5	457.42	459.88	484.36	530.20	0.7	1.68	511.20	455.72	461.23	480.98	526.67	536.56	388.51	411.22
Pacific Basin (867)	94.32	1.3	83.97	84.42	88.91	84.69	0.7	1.77	93.08	82.98	83.98	87.58	84.10	157.96	89.45	156.96
Euro-Pacific (1609)	205.44	0.7	182.90	183.88	193.67	182.56	0.6	1.93	203.98	181.84	184.04	191.92	181.44	218.04	172.03	204.85
North America (750)	450.40	0.6	400.99	403.14	424.60	450.78	0.6	1.38	447.76	399.18	404.00	421.31	448.14	450.40	349.06	350.03
Europe Ex. UK (537)	337.31	0.6	300.31	301.92	317.99	334.07	0.8	1.53	335.19	298.81	302.42	315.37	331.31	346.53	236.79	247.60
Europe Ex. Eurobloc (391)	98.71	0.2	98.76	105.05	100.60	99.60	0.2	2.37	98.46	98.65	105.63	100.15	99.37	100.97	94.59	-
Europe Ex. UK Ex. Eurobloc (186)	100.82	0.3	100.87	107.30	102.74	103.41	0.5	1.31	100.49	100.87	107.61	102.21	102.67	104.20	95.86	-
Pacific Ex. Japan (387)	153.78	-0.5	136.91	137.64	144.97	182.13	-0.3	4.82	154.51	137.74	139.40	145.37	182.71	318.98	142.99	315.21
World Ex. Eurobloc (2103)	98.39	0.6	87.60	88.07	92.75	99.67	0.5	1.65	97.79	87.18	88.23	92.01	99.15	100.18	93.25	-
World Ex. US (1824)	207.59	0.7	184.81	185.80	195.69	188.75	0.6	1.93	206.13	183.76	185.98	193.95	187.57	220.16	175.30	206.43
World Ex. UK (2249)	281.98	0.7	251.05	252.39	265.83	281.41	0.7	1.49	280.08	249.68	252.70	263.52	259.70	287.02	234.24	251.82
World Ex. Japan (1974)	390.90	0.5	348.01	349.88	368.50	388.47	0.8	1.71	388.90	346.70	350.89	365.92	384.33	394.39	309.33	318.87
The World Index (2454)	290.63	0.8	258.75	260.14	273.98	268.76	0.6	1.64	288.81	257.47	260.58	271.74	267.17	290.57	241.30	236.34

 PLEASE NOTE: Amendments to indices 29/6/98 applied to Netherlands, USA, related regional indices and The World Index. CONSTITUENT CHANGES WITH EFFECT 1/7/98: Additions: Dun & Bradstreet Corp. (USA) and IMS Health Inc (USA). Deletion: Cognizant International (US). Name changes: Cognizant Corp. to Nielsen Media Research (USA) and Dun & Bradstreet to Ruben H. Donnelly Co. (USA).

Emerging markets:

IFC investable indices

Dollar terms

Jun 29 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	902.12	+1.8	-19.1
Brazil	414.17	+0.8	-14.2
Chile	499.88	-2.1	-22.2
Colombia[1]	680.59	-0.6	-32.1
Mexico	580.75	+0.7	-28.3
Peru[2]	194.67	-0.6	-12.1
Venezuela[3]	474.02	+0.5	-49.2
East Asia			
China[4]	36.03	-3.2	-34.8
Korea[5]	23.90	+0.8	-0.5
Philippines	102.26	+2.3	-0.3
Taiwan, China[6]	114.79	-2.1	-18.6
South Asia			
India[7]	69.15	+4.1	-17.0
Indonesia[8]	12.60	-0.4	-82.9
Malaysia	64.00	-1.5	-29.8
Pakistan[9]	90.55	-12.8	-63.5
Sri Lanka[10]	79.31	-0.4	-31.8
Thailand	40.06	+0.6	-14.8
Europe/Mideast/Africa			
Czech Rep	58.22	+0.5	-2.7
Egypt	76.85	-1.1	-17.8
Greece	501.69	+0.4	+54.9
Hungary[11]	307.37	-1.1	-2.3
Israel	126.60	-0.2	+4.0
Jordan	218.48	+3.4	+3.9
Morocco	168.31	-0.8	+26.9
Poland[12]	687.20		+15.2
Portugal	268.92	-0.6	+57.4
Russia	67.47	-6.5	-61.4
S Africa[13]	155.89	-3.5	-19.3
Slovakia	55.29	-3.2	-44.2
Turkey[14]	270.21	+2.1	-13.4
Zimbabwe[15]	244.67	-2.2	-2.8
Regions			
Composite	202.90	-0.6	-17.5
Latin America	531.24	+0.3	-21.8
Asia	81.26	-0.8	-24.6
EMEA	136.54	-1.5	-7.5
Europe	176.02	-0.4	-0.6
Eastn Europe	86.56	-3.0	-38.3
ME & Africa	65.47	-2.6	-6.5

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 6 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)May 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

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FINANCIAL TIMES WEDNESDAY JULY 1 1998

WORLD MARKETS REVIEW

West offers haven to Asian refugees

Investors are seeking safety in Europe and the US as they shelter from the bitter winds blowing across the Far East and Latin America, says **Philip Coggan, Markets Editor**

"Go west, young man!" was the advice Horace Greeley gave to an ambitious American youth in the pioneering days of the 19th century. And any investor who followed his precept in the first half of 1998 would have profited substantially.

The traditional developed markets of the US and western Europe turned in yet another set of strong performances, following their record-setting runs of 1995-97.

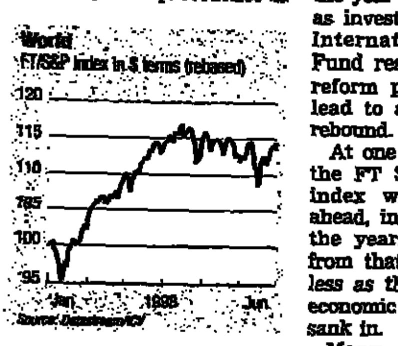
But the far eastern markets in Asia, the eastern parts of Europe and the "southern markets" of Latin America, South Africa and Australia all disappointed.

In part this was due to a reassessment, or rather a double reassessment, of the Asian crisis, which had caused most markets to correct in the fourth quarter of 1997.

The hit to US and European markets had sprung from a fear that the Asian collapse would reduce economic, and corporate profit, growth.

But another Asian effect gradually took precedence in the west – the deflationary effect on prices, particularly in commodity markets. That allowed bond yields to fall in Europe and the US, giving a further valuation lift to equity markets.

World
FT/S&P index in $ terms (rebased)



Only towards the end of the half year did investors start to question whether bonds and equities might decouple in a global deflationary environment.

In Asia, the reassessment came after a buoyant start to the year for equity markets, as investors hoped that the International Monetary Fund rescue packages and reform programmes might lead to an early economic rebound.

At one point in February, the FT S&P Pacific Basin index was 12.8 per cent ahead, in dollar terms, over the year. But the decline from that point was relentless as the horror of Asia's economic position gradually sank in.

Many countries in the region face recession this year and they may not have the financial strength to exploit the export potential of their devalued currencies.

And as the year progressed, the sorry state of the Japanese economy became increasingly apparent. Japan's gross domestic product fell at an annualised rate of more than 5 per cent in the first quarter of the year, dampening further the prospects for the rest of the region.

And the steady decline of the yen, halted temporarily by joint intervention by the Japanese and Americans, threatened to set off a further competitive round of devaluations.

By the end of the half, there were increasing signs that investors were opting for a flight to safety at every opportunity.

Fringe markets such as Russia and South Africa were coming under pressure, and Europe, with its combination of low inflation, low interest rates and the prospect for corporate restructuring, was looking more and more attractive.

Performance of FT/S&P indices: first six months of 1998
% changes

Winners	$ terms	local	Losers	$ terms	local
Finland	59.1	61.0	Indonesia	-58.2	15.1
Belgium	41.2	42.6	Thailand	-39.5	-46.6
Spain	41.2	42.6	Singapore	-35.5	-34.4
France	37.1	38.4	Hong Kong	-30.9	-30.9
Italy	35.3	36.7	Malaysia	-30.2	-25.1
Germany	32.8	34.0	Mexico	-26.8	-18.2
Ireland	30.4	33.8	New Zealand	-24.9	-13.9
Europe ex UK	29.5	31.4	Pacific Basin ex Japan	-23.3	-19.8
Sweden	25.4	25.9	South Africa	-18.1	-0.3
Nordic	24.6	25.8	Brazil	-11.9	-8.7
Europe	24.6	25.3	Pacific Basin	-10.9	-3.9
Netherlands	22.5	23.5	Philippines	-8.6	-3.6
Austria	21.1	22.1	Australia	-7.9	-1.4
Switzerland	18.8	24.2	Japan	-7.2	1.1
United States	17.5	17.5	Norway	-6.4	-2.4
World ex Japan	17.3	18.0	Canada	10.1	13.1
North America	17.2	17.3	Denmark	11.2	12.2
Americas	16.4	16.7	World ex US	11.3	14.4
United Kingdom	15.7	14.4	World ex UK	14.3	16.2
			World	14.4	16.0

Source: FTSE International Limited, Goldman Sachs and Co. and Standard & Poor's

NEW YORK

Conviction returns to shaky Wall Street

By John Labate

The first half of 1998 was another extraordinary period for the US markets. With three years of double-digit gains and last year's Asian-inspired collapse behind it, the Dow Jones Industrial Average still managed to surge from 8,000 to 9,000 in the short span between early February and early April. Then the market headed higher still, topping out at 9,211.

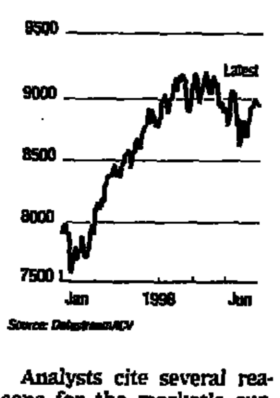
If that were not enough, bond yields came crashing down as the falling value of the yen triggered a flight to quality in US Treasuries.

May and June, though, proved to be a shaky ride indeed, as concerns about lofty valuations and Asian currencies crept back in.

By the end of June, however, evidence was growing that conviction was returning to the US stock market. The Standard & Poor's 500 index reached a new top of 1,133 and kept climbing from there.

The Dow, meanwhile, closed the month back near the elusive 9,000 level. "It's been choppy, but with an upward bias," says James Weiss, deputy chief investment officer of equities at State Street Research in Boston.

Wall Street
Dow Jones Industrial Average



Source: Datastream/ICV

Analysts cite several reasons for the market's current volatile trading range.

Some say the problem had more to do with record-breaking valuations than Asia jitters. "We had four dramatically higher months and you simply couldn't sustain that as far as the Dow is concerned," said Larry Wachtel, market analyst at Prudential Securities.

Valuations during the year have hit new peaks, triggering debate that blue-chip stocks were trading at overvalued levels. The threat of an Asian-inspired slowdown in the US also called into question the earnings and revenue expectations for many companies.

One major plus for the bulls was interest rates, with the long bond yield breaking through the 5.75 per cent level that had formerly been the lower end of its trading range.

"We've really factored lower interest rates in for the first time this year, so [stock] valuations have to be reevaluated," said Arthur Hogan, chief market analyst at Jeffries & Co in Boston.

The other major factor keeping the market at its current level is the effect of demographics on cash flow. Anxious baby-boomers and formerly cautious foreign investors have stepped into the US market aggressively, especially during the second quarter of 1998, cushioning the pullbacks with enough cash from the sidelines to keep prices headed back higher.

Asia remains the wild card, and its impact on technology and other sectors could still lead the market lower in coming months. Anti-trust actions still loom ahead for Microsoft and Intel, and, in the case of the latter, the chip industry is heading for a revaluation.

Such concerns add to pressures that were already bearing down on the market in the first half of 1998. They are unlikely to go away for long in the second half.

ASIA

Financial crises spread woes to real economies

By Peter Montagnon, Asia Editor

It has not been a good six months for Asia's troubled stock markets. After an attempt at a rally in the first quarter when investors felt that prices might have reached their floor, the region's markets fell back sharply again in the second, reaching new lows since the crisis started.

The reason for the pessimism is clear. What started principally as a financial crisis affecting banks and currencies has now spread into the real economy.

Indonesia, the worst-affected country, is expected to see its economy shrink by more than 15 per cent this year.

Even Thailand, which has been regarded as a model patient, will show a contraction of something like 8 per cent.

Against that background there is little prospect for a revival of corporate earnings. Indeed, in many of the affected countries, large tracts of the corporate sector are effectively bankrupt, and even good companies are finding it hard to raise credit from a banking system that is severely squeezed.

In so far as foreign capital is flowing into the region, it is more likely to be trade investment.

While the markets remain risky for portfolio investors, there are cheap buying opportunities for multinationals, anxious to build up strategic stakes in their industries.

Part of their role is to recapitalise companies so that their business can continue. Only when that process is complete will the field be ready for portfolio investors.

When the crisis broke last year, analysts argued that the markets would turn at the point when currencies stabilised and interest rates were able to come down.

As the credit squeeze has intensified and debt problems have grown more acute, most point to the need for banking systems to be cleaned up before normal growth can resume.

This adjustment is proving slow even in countries which have shown the greatest earnestness in following International Monetary Fund programmes.

Thailand is taking steps to force its banks to recognise non-performing loans and to persuade companies to restructure their debts. Indonesia has signed a framework agreement with its foreign bankers on corporate debt.

However, in practice progress has been slow, hampered by the lack of effective bankruptcy procedures in many countries.

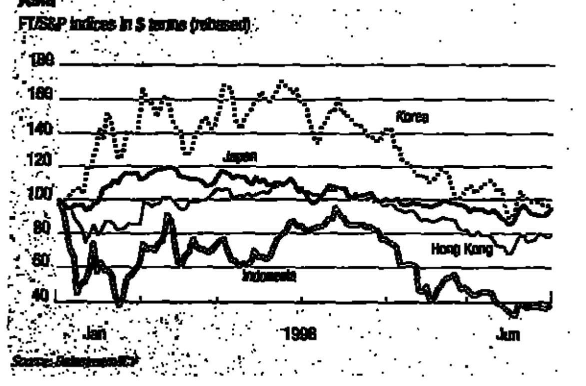
And in the background, worries continue about Japan, whose economy shrank at an annual rate of more than 5 per cent in the first quarter.

Many economists believe that a recovery by Japan – which depends in turn on its own ability to clean up its banks – is a prerequisite for a broader regional recovery.

By contrast, a failure by Japan to deal with its problems would compound the recession, possibly prompting China to devalue, which would set off a new wave of market instability.

Against that background it would take a brave investor to put his or her toe back in the water.

Asia
FT/S&P indices in $ terms (rebased)



Tokyo suffers from faltering yen and failing economy

With gains of more than 3.5 per cent in the first half of the year, the Nikkei 225 average may not be an ideal barometer of sentiment in Japan, *writes Emiko Terazono.*

Although on the surface, Tokyo seemed to offer more of the same old story – bankruptcies, worries over bad loans at banks, the faltering economy and falling consumer prices – the economic picture rapidly deteriorated in the first six months.

The yen seemed to reflect the pessimism, falling almost 7 per cent against the dollar since the start of the year.

The currency, which hovered around Y130 against the dollar, started to lose ground as negative economic news and further fears of bad loans at the banks did the rounds.

Even a Y16,000bn stimulus package announced in March failed to impress, while first-quarter gross domestic product figures released in June confirmed the economy was shrinking. This triggered a heavy sell-off, pushing the yen to Y146.80 in mid-June.

On the stock market, the focus has remained very much on the banking sector, which has been overwhelmed by non-performing loans.

The Bank of Tokyo-Mitsubishi, believed to be one of the healthiest in the sector, fell 18 per cent, while the Long-Term Credit Bank of Japan – which faced a heavy sell-off on fears of severe bad loans and recently announced a merger with Sumitomo Trust & Banking – lost more than 60 per cent.

Stock pickers, may have found comfort in the gains in some stocks outside the banking sector.

Kajima, the general contractor, jumped more than 15 per cent, while blue chips including Sony and Honda posted advances of 3 per cent.

Whether Japan can deal with its bad loan situation and come up with further measures to boost the economy is not only vital for the Tokyo stock market. The weak yen has sent other Asian currencies reeling, while threatening to widen the US trade deficit.

The government is planning to release a package to support the financial system on July 8. But Mamoru Yamazaki, economist at Paribas, says: "Given the absence of a substantial fiscal package and continued concerns over banks' problems, the risk is greater than 50 per cent that the markets judge that government's measures are, again, too little too late."

LATIN AMERICA

Funds flee illiquid bourses

By Richard Lapper, Latin America Editor

Low commodity prices and the financial crisis in Asia have hit investor confidence and caused a sharp cut in Latin American stock prices, depressing the IFC's composite index by 19 per cent in dollar terms this year.

US mutual fund investors have led the retreat with heavy levels of redemptions leading to a sharp fall in liquidity.

Eduardo Cabrera, chief Latin American strategist at Merrill Lynch, the US investment bank, says: "You almost have a depression in the buy side of the business."

Institutional investors are steering clear of smaller markets such as Peru, Chile and Venezuela, where liquidity has virtually dried up.

John Gannon, sales trader at BBV Latinvest in London, says that fund managers are worried that they may be unable to sell stocks from these markets if they need the cash. "People can't justify putting their funds in the smaller markets," he says.

Venezuela – down 48.2 per cent since the beginning of the year – has been the worst hit, with lower oil prices and political uncertainty ahead of December's presidential elections contributing to doubts.

Daily volume is now averaging between $3m and $5m, compared to between $15m and $20m a year ago. Low copper prices have hit the Chilean and Peruvian markets, down 22.2 per cent and 13.2 per cent respectively, and Argentina is down 19 per cent.

The fall has occurred in spite of a rise in corporate profitability.

According to one recent analyst's note, the biggest Mexican companies are making an average 14 per cent rate of return on capital compared to just 1 per cent in May 1995 in the wake of the peso crisis.

Indeed some Latin American stocks are now trading at substantial discount to their sectoral peers in other markets.

LONDON

Footsie loses its head of steam

By Peter John

London's bull market is showing signs of a slowdown in the face of external and domestic pressures.

The FTSE All-Share index has risen 15.35 per cent in dollar terms over the first six months of the year. But all those gains were achieved in the first quarter, and during the past three months the FTSE 100 index has actually fallen back slightly.

At the close of trading last night, the broad index was up 332.46 at 2,743.46 over the period while the FTSE 100 index was up 697 at 5,832.5.

There has been support from the telecoms sector which has risen sharply because of hopes of consolidation.

Nevertheless, Footsie has retreated from the high of 6,105.8 achieved at the beginning of April.

Having led the revival in European equities, London now appears to be leading the slowdown. In spite of its early gains, it was one of the worst performers in the region over the period.

The external pressure on the UK market came from the second leg of the Asian downturn. London's direct exposure to the region is very slight in profit terms, but some of the market's biggest constituents, such as HSBC, have been heavily hit.

And there is an indirect impact of nervous sentiment that has prompted funds to stay at least neutral on equities.

At home, the Bank of England's tight monetary policy – rates were raised again in June – has prevented sterling from returning to a level that the big exporters would find acceptable.

The pound has risen back above DM3.00, squeezing the overseas earnings of multinationals and undermining the competitive advantage of smaller groups manufacturing in the UK for overseas markets.

Several strategists have published very cautious views recently.

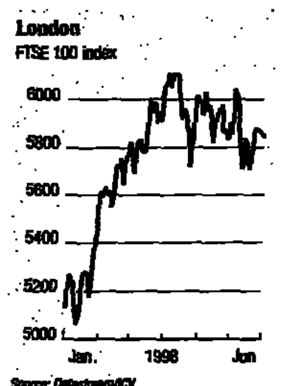
BT Alex Brown argues that cash may provide a better return than equities in the short term, and Salomon Smith Barney has taken the traditionally disappointing June weather as a metaphor for the UK economy.

The investment bank cites the persistent dripfeed of interest rate rises, wage growth and inflation above the government's target.

"While the sun continues to shine on continental European earnings prospects, storm clouds are looming on the UK corporate earnings front," the broker says.

Salomon has pinpointed downgrades to forecasts throughout the UK market.

London
FTSE 100 index



Source: Datastream/ICV

EUROPE

Record-setters pause for breath in second quarter

By Jeffrey Brown

Despite a slower performance in the second quarter, Europe's stock markets have turned in a remarkably impressive half-time score, racking up a collective gain of almost a quarter over the first six months of 1998.

The European segment of the FT/S&P World Indices rose by 24.6 per cent in dollar terms over the half year, buoyed by a surge of nearly 60 per cent in Finland and gains in excess of 40 per cent in Belgium and Spain.

There was plenty of speed, too, from the more heavily weighted markets of France and Germany, which rose 37 per cent and 33 per cent respectively. Norway, down 6 per cent, was the region's only real disappointment.

However, in every instance, most of the gains were accumulated in the first quarter. As well as Norway, Ireland, Italy and Denmark all moved lower in dollar terms during the second quarter, while France and Germany only just achieved double-digit growth with gains of 11 per cent and 12.5 per cent.

Although earnings expectations, one of the main driving forces behind Europe this year, remain upbeat, the renewed waves of Asian worries have tightened their grip on investor sentiment.

The strength of the dollar has aided profit forecasts and European monetary union is still on course. Yet in recent weeks most markets have been trapped in a narrow trading range.

Although there are similarities across the continent, most stock markets have their individual flavour. None more so than half-way leader Finland, which has roared ahead on the back of the global technology story.

Nokia, the telecoms group which accounts for 40 per cent of the value of the Finnish equity market, is a fully paid-up member of the super-league of world companies created by rapid technological change and fast-rising demand for new products.

In Spain and Italy, investors have continued to switch from bonds to equities as the two economies move closer into line with the European benchmark for inflation, although the process has slowed this year.

Belgium's progress at the top end of the performance charts is largely explained by takeover activity. A high-profile battle for banking leader Generale Bank dominated the headlines from April onwards.

Corporate activity – notably Daimler-Benz's merger with Chrysler of the US – also kept the pot boiling in Germany and France. There has also been powerful support from strong earnings with GDP growth running at around 3 per cent.

Weak oil prices are the key to Norway's problems. Brokers have severely downgraded earnings forecasts for both Norsk Hydro and Saga, the two companies that dominate the Oslo bourse.

What does the next six months hold in store for European equities? Brokers see flows of funds as a major source of support, with cash and bond yields across the continent staying unappealingly low.

Should it lose some of its recent shine, the dollar could provide problems, but the consensus among brokers at this stage is cautiously optimistic.

Eastern Europe feels Russian fallout

Moscow has been by far the worst-performing market in eastern Europe so far this year as the shockwaves from the Asian crisis have compounded the country's own economic difficulties, *writes Michael Morgan.*

Although Russian equities were subdued yesterday, Monday's 6.1 per cent tumble, which took the market to its lowest level since September 1996, meant that it had dropped more than 60 per cent since the beginning of the year.

Among the larger regional markets, Poland has been the star performer so far, rising around 15 per cent, spurred on by the continuing privatisation process and improving economic data.

But the relatively illiquid Prague bourse and Budapest, traditionally regarded as the safe haven of central Europe, have been flat.

Russia's latest weakness stemmed from further concerns about the government's ability to meet its debt obligations.

Those worries hit the yields on short-term government bonds late last week and so forced the central bank to raise its key refinancing rate to 80 per cent.

Neighbouring markets, particularly Budapest, felt some impact from Russia's pain, but developed Europe has remained unscathed.

Shaun Roache, global emerging markets strategist at ING Barings, argues that given its limited economic and financial links with Russia, developed Europe is well insulated from the volatility in Moscow.

He adds that while the east European bourses have suffered some of the effects of the general emerging market fallout, they have still exhibited impressive relative resilience, based on sound economic fundamentals and their strengthening links with western Europe.

Once general emerging market pressure eases, these factors will leave the region well placed to deliver outperformance, even though investor scepticism over the Russian authorities' ability to deliver fiscal and financial stability may linger.

AFRICA

Foreign buying puts Ghana top

By Joel Kibazo

Renewed foreign buying interest in Ghana has not only made it the best performing market in Africa but also one of the sharpest risers within the emerging markets sector worldwide.

The main index on the Ghana stock exchange has risen by 85 per cent in dollar terms so far this year against a modest advance of 8 per cent seen in 1997 when most of the interest was attributed to local investors.

Specialists put the advance down to the low valuations of stocks prevailing in that market at the start of 1998 as well as the continuing decline in interest rates, a move that has brought renewed interest in equities. Banking stocks, as well as consumer stocks such as Guinness, have been the main attractions.

Attractive valuations have also been the reason for the advance in Botswana's stock market which has risen by 17 per cent since the beginning of the year.

Other advances have been recorded in Mauritius, up 9 per cent, and Zimbabwe, where the market has rebounded 5 per cent this year, having fallen by 52 per cent in 1997 on a combination of political and economic uncertainty.

Bargain hunting and improving tobacco prices are said to have been behind the recovery seen in the first six months of this year.

But it is South Africa's Johannesburg stock exchange (JSE) that specialists in the region's markets have been watching closely as the country's currency crisis has continued to unfold.

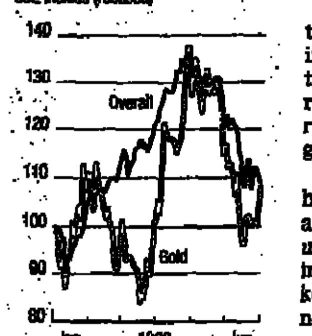
The industrials index, which had moved steadily ahead, had by yesterday fallen by around 11 per cent in US dollar terms as dealers watched a sharp decline in the rand. The currency has fallen by around 21 per cent since the beginning of the year.

However, analysts said it is unlikely any further decline in the rand will have a big impact on the equity market.

"It is important to remember that unlike other emerging markets, much of the JSE is owned by South Africans and not foreigners, mainly because of the continuing exchange controls in that country."

Looking at the overall performance of the African markets this year, Christopher Hartland-Peel, Africa analyst at Standard Bank, said: "I think these markets have shown considerable resilience and lower volatility than say the Asian markets. Continued profitability among companies and low indebtedness have been the key."

South Africa
JSE indices (rebased)



Source: Datastream/ICV

4 pm close June 30

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Price	Chng Prev Close
3 5/8	2 7/8	ECC Intl				134	3 1/4	3 1/8	3 1/4	+1/8
33 1/4	19 1/8	EGG	0.56	1.9	24	3122	30 1/4	28 1/8	30	+1/8
7 3/8	2 1/8	EA Inds				350	3 1/8	2 7/8	3 1/8	+1/8
60 1/4	40 1/8	Earthgrns	0.20	0.4	30	717	56 1/8	55 1/4	55 3/8	-1/8
27 3/4	23 1/8	East Utile	1.66	6.3	14	328	26 1/2	26 1/4	26 1/4	-1/8
45 7/8	37 3/8	E Entrepr x	1.04	3.8	16	1135	43 1/8	42 7/8	42 7/8	+1/8
72 1/8	58 1/8	EastCh x	1.76	2.8	18	1992	62 1/4	62 1/8	62 1/4	+1/4
78 1/4	57 1/8	EKodak x	1.76	2.4		22966	73 1/2	71 7/8	73 1/8	+2 1/4
99 5/8	78	Eaton	1.76	2.3	12	3125	78 1/2	77 1/8	77 1/4	-1/4
52 1/4	34 1/2	EchlIn x	0.80	1.8		2839	49 1/8	48 1/8	48 1/4	+1/8
33	29 1/8	Ecolab x	0.38	1.2	28	3175	31 1/8	30 1/8	31	-1/8
31	25 1/8	EdisonI x	1.04	3.5	16	11586	29 1/4	29 1/8	29 1/8	-1/8
48 1/2	35 1/4	EdwdAG x	0.56	1.3	14	2594	43 1/8	42 1/4	42 1/8	-1/8
8 1/4	6 1/8	Eeco Group			29	96	7 1/8	7 1/8	7 1/8	
69	48 1/4	Elan ADR			35	3058	65 1/8	63 1/4	64 1/8	-1/8
28 1/4	20 1/2	Elcor Corp	0.24	1.0	21	578	25 1/4	24 1/4	25 1/4	+1/8
50 7/8	33 1/2	EDS	0.60	1.5	28	17873	40	39 1/8	40	+1/8
74 1/2	50 1/2	EMerEl x	1.05	1.5	28	4510	71 1/2	68 7/8	71	+2 1/8
8 1/8	6 1/8	Elscint			41	58	7 1/8	7 1/8	7 1/8	+1/8
47 7/8	24	EMC			38	14424	45 1/8	44 1/8	44 1/8	-1/8

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Price	Chng Prev Close
115	85 1/8	Xerox x	1.44	1.4	23	6800	103 1/8	101 1/4	101 1/8	-1/8
68 1/8	45 1/2	Xtra Corp	0.88	1.5	19	439	60 1/8	60 1/2	60 1/2	+1/8
28 1/8	22 1/2	Yankee Egy	1.38	5.6	17	126	24 1/8	24 1/8	24 1/8	+1/8
52 1/4	34 1/8	York Int x	0.48	1.1	38	1988	43 1/4	42 1/8	43 1/8	+1/8
16 1/4	8 1/8	Zapata	0.28	2.8	24	820	10 1/4	9 7/8	9 7/8	-1/4
30 1/2	24 1/2	Zenith Nat	1.00	3.5	17	47	28 1/8	28 1/8	28 1/8	-1/8
8 1/8	7 1/8	Zweig Inc	0.73	9.6		25	7 1/8	7 1/8	7 1/8	+1/8
33 1/4	25	Zero	0.12	0.4	17	381	28 1/4	28 1/8	28 1/8	+1/4
14 1/8	11 1/8	ZweigFd	1.24	10.0		400	12 1/4	12 1/8	12 1/8	+1/8
9 1/8	8 1/2	Zweig Tot	0.84	9.6		675	8 1/8	8 1/4	8 1/4	-1/8

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. # Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jun 29	Jun 26	Jun 25	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8997.36	8944.54	8935.58	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	104.88†	105.10	104.94	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3459.84	3417.94	3412.13	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	292.46	288.60	285.82	293.79 (11/6)	262.66 (9/1)	293.79 (11/6/98)	16.53 (8/7/32)

DJ Ind. Day's high 9052.86 (9047.88) Low 8945.54 (8978.78) (Theoretical‡)
Day's high 9090.24 (8991.83) Low 8930.84 (8934.88) (Actual‡)

Standard and Poors	Jun 29	Jun 26	Jun 25	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1138.49	1133.20	1129.28	1138.49 (29/6)	927.69 (9/1)	1138.49 (29/6/98)	4.40 (1/6/32)
Industrials¶	1329.04	1324.01	1318.81	1329.04 (29/6)	1077.40 (9/1)	1329.04 (29/6/98)	3.52 (30/6/32)
Financial¶	137.47	136.52	136.35	140.83 (14/4)	110.85 (9/1)	140.83 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	580.17	577.53	576.14	586.82 (22/4)	487.47 (9/1)	586.82 (22/4/98)	4.64 (25/4/42)
Amex Comp	720.81	717.87	713.96	763.67 (22/4)	646.41 (12/1)	763.67 (22/4/98)	534.20 (16/7/96)
NASDAQ Cmp	1891.08	1869.53	1863.25	1917.81 (22/4)	1503.22 (9/1)	1917.81 (22/4/98)	54.87 (3/10/74)
Russell 2000	453.83	450.27	450.16	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Jun 26	Jun 19	Jun 12	Year ago
Dow Jones Ind. Div. Yield	1.60	1.64	1.61	1.67

	Jun 24	Jun 17	Jun 10	Year ago
S & P Ind. Div. yield	1.28	1.32	1.32	1.61
S & P Ind. P/E ratio	31.73	30.97	31.02	24.35

US DATA

MARKET ACTIVITY

Volume (million)	Jun 29	Jun 26	Jun 25
NYSE	547.178	520.050	683.892
Amex	23.528	20.491	28.468
NASDAQ	683.117	619.640	843.770

NYSE	Jun 29	Jun 26	Jun 25
Issues Traded	3,491	3,504	3,518
Rises	1,611	1,588	1,411
Falls	1,188	1,359	1,572
Unchanged	614	558	535
New Highs	116	83	120
New Lows	106	125	136

NYSE TRADING ACTIVITY

Volume : 564,380,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
AT&T	7,463,400	65⅝	+⅛
Compaq	6,388,700	28⅛	+⅛
IomOS	5,928,000	15⅝	−6⅝
Pfizer	3,903,800	108⅞	−2
AmOnLne	3,734,400	104⅝	−2⅞
PhMor	3,726,800	39⅛	−⅛
LucentTch	3,308,900	82⅛	+1⅝
Fst Union	3,245,800	58⅛	−⅛
WalMrt	2,991,800	82⅛	+2⅝
Travlr	2,953,100	61⅛	+⅛

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
NewsCpADR	33⅛	+3⅞	+12.1
Burl Coat	22⅛	+1⅞	+8.1
TritoA	35⅞	+2⅝	+7.9
NokiaADR	74⅛	+4⅝	+6.6
Downs			
IomOS	15⅝	−6⅞	−31.4
Cash Amer	15⅝	−4⅞	−22.6
SnpOnT	34⅞	−3⅛	−8.1
Coachmen	24½	−2⅝	−8.8

NASDAQ TRADING ACTIVITY

Volume :684,514,000

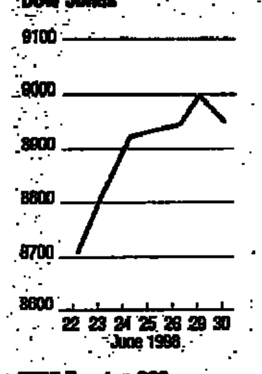
ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Micsft	18,237,000	107⅞	+3
Intel	11,216,200	75⅞	−⅛
DellComp	10,475,400	94⅝	+1⅝
3Com	10,428,700	30⅛	
CiscoSys	8,545,400	91⅞	+1⅞
Tel-Swe	7,837,100	14⅛	−1
Excite	7,338,800	85⅝	+9⅝
TCI GpA	7,095,000	38⅛	−⅛
ParamT	6,453,600	29⅛	−1
OnsaiCm	5,540,200	33⅝	+⅞

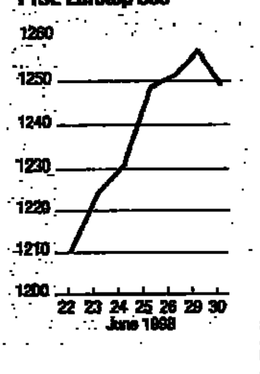
BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
YogBrdcst	63⅞	+16⅛	+34.3
HolluBr	43	+6⅝	+18.6
Excite	85⅝	+6⅝	+18.0
Lycos	74⅝	+7⅝	+11.8
Downs			
Vantive	20⅝	−4⅞	−17.2
VLSI Tech	18⅝	−2⅝	−11.8
JDA Sftw	47	−6⅝	−10.9
Zoltek	20⅝	−2⅝	−10.4

Dow Jones



FTSE Eurotop 300



JAPAN

	Jun 30	Jun 29	Jun 26	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15830.27	15385.73	15210.04	17264.34	14664.44	38915.9	85.25

Day's high: 15930.47. Day's low: 15462.24.

TOKYO TRADING ACTIVITY

Volume : 666,060,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
NpStl	28,386,000	244	+8
LgTmCr	21,978,000	81	−16
SumMtl	10,847,000	223	+1
Yuasa	10,548,800	283	+18
BTokM	8,220,000	1489	+54
KawStl	7,532,000	250	+9
NKK	7,209,000	133	+7
YasT&B	6,452,000	130	+18
MbHvy	6,397,000	524	+11
TkGas	5,843,000	309	+4

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
AndoCs	245	+35	+16.7
YasT&B	130	+18	+16.1
GenElCh	268	+32	+13.6
TknCar	180	+20	+12.5
IwtgaG	193	+21	+12.2
AmbICh	500	+49	+10.9
NgYaya	203	+19	+10.3
Downs			
LgTmCr	81	−16	−16.5

FRANCE

	Jun 30	Jun 29	Jun 26	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	4203.45	4248.24	4215.70	4248.24	2862.54	4248.24	984.61

Day's high: 4263.61. Day's low: 4202.66.

PARIS TRADING ACTIVITY

Volume : 626,858,410

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Unilever	4,039,179	93.4	−1.7
Alstom	1,694,987	199	−3.1
FrTele	1,888,040	417	−1.9
RhonPA	1,497,508	341	−5.9
MichlnB	1,115,335	349	−5
Rhodia	1,058,085	168.6	−2
Schndr	1,028,500	482.1	−6.9
EurDis	1,017,138	12.1	−0.25
Axa	921,224	680	−1
PechnyA	856,170	243.5	+2

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Genrex	22.0	+4.0	+22.2
Lab Dolisos	303.7	+53.7	+21.5
FDM Pharma	47.0	+5.0	+11.9
Eaux Vichy	2731.0	+253.0	+10.2
Downs			
Eiffage	523	−40	−7.1
SodexAl	1143	−86	−7.0
Valeo	618	−34	−5.2
Dev ED	3230	−171	−5.0

GERMANY

	Jun 30	Jun 29	Jun 26	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5897.44	5915.13	5870.42	5915.13	4087.28	5915.13	931.18

Day's high: 5900.58. Day's low: 5857.65.

FRANKFURT TRADING ACTIVITY

Volume : 8,274,343

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Veba	784,582	121.35	−7.15
Dt Tel	558,288	49.4	+0.55
Bayer	418,754	93.4	+0.7
H'chst	388,677	80.75	+0.75
Commzbk	367,895	68.7	−0.3
Daimlr	359,661	177.5	−1.8
Siemens	355,218	110.15	+0.55
BASF	350,498	85.75	−1.28
Mannesm	288,373	185.5	+0.5
Dt Bk	273,352	152.6	−1.9

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Hrlltz	98	+10	+11.4
Reichelt	21.8	+1.8	+9.0
Technotrans	140.0	+10.0	+7.7
Pitt Maschin	4.8	+0.3	+6.7
Downs			
Rendit	200	−15	−7.0
Veba	121.35	−7.15	−5.6
WellaPf	2020	−100	−4.7
JnghPf	335	−15	−4.3

UK

	Jun 30	Jun 29	Jun 26	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5832.5	5894.5	5877.4	6105.80	5058.80	6105.8	986.9

Day's high: 5895.0. Day's low: 5825.0.

LONDON TRADING ACTIVITY

Volume : 824,700,800

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Thorn	40,165,870	230	+19½
Burford Hldg	17,331,490	104½	−2
Shell T&T	17,274,360	422	
BTR	15,756,770	170	+3½
MFI Furniture	12,363,580	63	+2½
GEU	12,090,090	1118	+2
Ryl & Sun	12,072,240	619½	+7½
Signet Grp	11,700,580	43¼	−¼
Br Energy	10,304,530	524	+14
SmKlBchm	9,963,078	731½	−3½

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
AG Hldg	128	+39½	+44.6
Omnimedia	84½	+22½	+36.8
Chesterton	23½	+5	+27.0
Int Asst Man	47½	+10	+26.7
Downs			
Desire Pet	151	−64	−29.8
Westmount	84	−31	−27.0
Rich Westgth	60½	−19½	−24.4
Stectar (Wts)	174½	−38½	−18.1

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	1151.50	1149.10	−2.40	1153.40	1147.60	90,107	352,568
Dec	–	1163.80	–	–	1154.40	272	13,257

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	15470.0	15650.0	+260.0	15790.0	15440.0	37,494	187,205
Dec	15430.0	15720.0	+420.0	15720.0	15430.0	623	10,092

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	4249.5	4222.8	−26.7	4268.0	4212.0	26,804	13,177
Jul	4258.0	4220.0	−35.5	4225.0	4216.0	25,831	30,441
DAX							
Sep	5988.5	5875.0	−106.5	6010.0	5872.5	24,539	70,693
Dec	6055.0	5926.0	−83.5	6055.0	5940.0	42	1,738

OMX	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jul	778.00	775.00	−4.00	780.50	773.75	13,968	118,031
Aug	778.25	779.00	−2.25	783.50	778.00	135	10,007
SOFFEX							
Jul	7905.0	7868.00	−38.0	7912.0	7845.0	4,432	22,224
Aug	7898.0	7884.0	+73.7	7899.0	7893.7	17	117

WORLD MARKETS AT A GLANCE

Country	Index	Jun 30	Jun 29	Jun 26	1998 High	1998 Low	Yield	P/E
Argentina	General	19441.18	19319.35	19103.25	23485.47 23/3	18237.46 2/1	3.5	16.6
Australia	All Ordinaries	2668.4	2621.1	2609.9	2861.48 16/4	2624.60 16/6	3.4	19.1
	All Mining	583.6	555.5	559.5	713.30 23/4	548.80 16/6		
Hungary	Bux	7605.72	7754.73	7828.09	9818.36 23/4	7649.36 29/5	na	na
India	BSE Sens.	3250.69	3289.55	3168.82	4280.96 21/4	3097.34 23/6		
	Crisil 500	624.40	631.10	607.56	816.82 21/4	578.17 23/6	na	na
Portugal	BVL 30	5302.13	5338.36	5361.45	6178.89 22/4	3878.27 2/1	1.8	39.8
	PSI 20	12049.22	12134.63	12183.10	14292.68 22/4	9031.84 2/1		
Russia	RTS	151.35	153.97	163.99	411.81 5/1	151.35 30/6	na	na

News Corp soared after announcing plans to float Fox and BHP recovered most of Monday's losses.

Shares bounced back from Monday's losses as investors took advantage of market's lower prices.

Week close as investors squared up long positions on last day of settlement at National exchange.

Markets paused ahead of government paper auctions and parliament's first vote on key anti-crisis legislation.

THE NASDAQ STOCK MARKET

4 pm close June 30

THE NASDAQ STOCK MARKET

AMEX PRICES

4 pm close June 30

EASDAQ

STOCK MARKETS

Bourses hold back ahead of Fed decision

WORLD OVERVIEW

World equity markets ended the first half of the year in rather subdued fashion as they waited for the US Federal Reserve to make a decision about interest rates, *writes Philip Coggan*.

Few economists expected the US central bank to change rates, but the meeting gave investors an excuse for caution after the recent strong performances of European and US bourses.

The Tokyo stock market managed a 3 per cent rally, on the back of hopes of a permanent income tax cut and comments from prime minister Ryutaro Hashimoto that the Japanese government would take serious action to tackle the country's weak banking system.

The yen moved back above the Y140/$ level, giving some relief to Asian currencies, while the Pakistan bourse, hit by the weekend devaluation of the rupee, rebounded 8.46 per cent.

But the yen's strength was little help to European equity markets, which normally prefer a stronger US dollar. The losses on European bourses were fairly limited and seemed largely to reflect a spot of profit-taking after the record-setting levels seen on Monday. Zurich, however, inched forward to a new high.

Neither the dollar nor the Treasury bond market took any inspiration from the US strike on an Iraqi radar installation, which might have been expected to have some "safe haven" effects. A much weaker-than-expected Chicago purchasing managers index, which appeared to point to a slowing US economy, also had little impact. Walt Disney led Wall Street lower, as analysts cut estimates.

John Brennan, chairman of Vanguard, the giant US fund management group, takes a cautious view of prospects for the US equity market, pointing out that the dividend yield is at an historic low, the price-earnings ratio at an all-time high and that investor returns since 1982 have been among the highest in history.

Modern investors are used to little else, he points out. "At the start of the bull market in 1982, the total invested in all US equity mutual funds was just $75bn. That is less than our two big index funds are worth today," he says.

However there were no signs of such worries at Deutsche Bank, which produced some bullish forecasts for 1999, arguing that the Dax, currently around 5,900, can reach 7,000 next year as could the FTSE 100 index, currently around 5,800. Deutsche also sees the CAC 40 in Paris moving above the 5,500 level in 1999.

World markets review, Page 41

Disney drops sharply as Dow slips

AMERICAS

US shares moved lower in active midsession trading with a number of leading stocks singled out by the sellers, *writes John Labate in New York*.

By early afternoon the Dow Jones Industrial Average had lost 43.35 at 8,954.01, while the broader Standard & Poor's 500 index was 3.88 lower at 1,134.61. The Nasdaq composite, weighted in technology shares, fell 8.43 to 1,882.65.

A handful of major shares in the Dow cast a cloud over trading. Walt Disney tumbled $6 11/16 or 5.9 per cent to $106 1/4 after Prudential and Morgan Stanley cut back their earnings estimates. Johnson & Johnson also fell sharply, down $2 3/4 to $74 1/4 one day after regulators issued a warning about one of the group's drug products.

Yesterday marked the start of a two-day meeting of the Federal open market committee. Although expectations are high that interest rates will be left alone, overseas factors, particularly the value of the yen against the dollar, put the bond market under pressure.

The long bond came off 3/16 at 106 3/4, lifting the yield to 5.659 per cent, in spite of surprising weakness in the latest report by the Chicago Association of Purchasing Management.

Technology shares pulled back, with semiconductor shares falling sharply. The Philadelphia Stock Exchange's semiconductor index was off 1.29 per cent to 246.90, with Intel down $2 to $73 11/16.

Shares of Microsoft fell $1 7/16 to $106 1/4 after Morgan Stanley Dean Witter said the stock could move lower because of its NT 5 product. Computer makers slipped as well. Dell Computer came off $1 to $93 1/4.

The merger announcement between Hilton Hotels and Grand Casinos sent both stocks sharply lower. Grand Casino fell more than 5 per cent to $17 1/2, while Hilton lost $1 7/8 to $29 7/8.

TORONTO traded narrowly ahead of today's national holiday. Volumes were on the thin side in the morning session. The 300 composite index was down 28.38 at 7,381 at noon.

Golds pushed higher in the wake of a steadier bullion price, but the other heavyweight sector, the banks, lost ground on renewed interest rate concerns.

Barrick Gold rose 50 cents to C$27.70 and Placer Dome put on 30 cents at C$16.75. Among banks, Royal Bank of Canada shed 20 cents at C$89.10 and Canadian Imperial fell 35 cents at C$48.35.

Alcan Aluminium retreated 70 cents to C$40.10. BCE dipped 30 cents to C$63.15 and Northern Telecom 45 cents to C$82.90.

São Paulo climbs again

SAO PAULO pushed higher in early trading with the Bovespa index racking up a midsession gain of 141 or 1.5 per cent to 9,745 in fairly subdued volumes.

Brokers said investors were picking up where they left off on Monday when the benchmark index ended 0.5 per cent higher, but there was no weight of buying.

Among blue chips, Telebrás put on 1.9 per cent to R$127 and Eletrobrás gained 2 per cent to R$35.40. Petrobrás was little changed at R$215.

MEXICO CITY tracked the improving trend of oil prices. Shares pushed higher led by heavyweight Telmex, which added 35 centavos to 21.40 pesos. At midsession, the IPC index was up 80.44 or 1.9 per cent at 4,265.

Jo'burg steadier after falls

SOUTH AFRICA

End-of-quarter demand late in the session helped Johannesburg limp to a steadier close after the dramatic currency-led falls of recent sessions.

At the close, the all share index was up 3.4 at 6,771.6 helped by another solid day for golds. Industrial shares fell 56.1 to 8,026.8 and financials lost 40.4 at 11,913.6.

Golds continued to benefit from a steadier bullion price. The sector index rose 4.4 per cent to 872.4.

Zurich inches to new high

EUROPE

A firmer dollar helped **ZURICH** to maintain its record-setting momentum into a second straight day, but only just, as losses in Nestlé and the pharmaceuticals sector put a cap on the advance. The SMI index settled 0.1 higher at 7,883.0.

Shares of the merged UBS, which account for around 15 per cent of the blue-chip index, rose SFr14 to SFr564 in the wake of a number of recommendations. CS Group gave up SFr2.50 to SFr337.50, although analysts said that the banks were little moved by the threat of sanctions in some US states unless they are able to convince critics of significant progress to meet the demands of Holocaust victims.

Swiss Re, which pays a dividend of SFr44 today, jumped SFr75 to SFr3,836. But Baloise gave up SFr21 to SFr1,242.

Swiss Life put on SFr49 to Sfr1,284 and SAirGroup was SFr11.50 higher at SFr499: both become SMI constituents today.

ABB, volatile on Monday amid rumours of fundamental changes to the management structure of the group, added SFr5 to SFr2,240 as the chairman, Percy Barnevik, sought to play down the story.

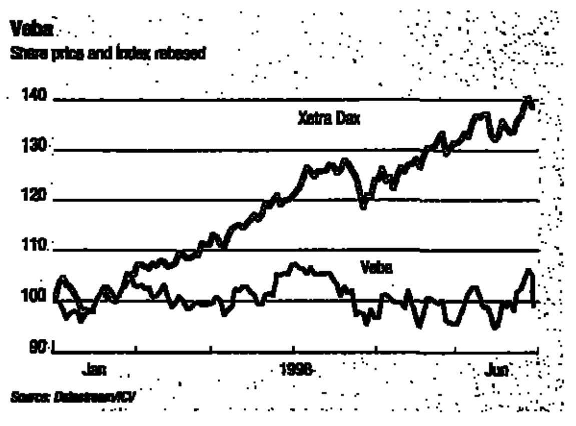
SGS tumbled SFr66 to SFr2,571 as the inspections and testing group said it would not make a public share buyback offer this month.

FRANKFURT ran into profit-taking after Monday's peak, with the market also pulled down by an 8 per cent fall in Veba. The Xetra Dax index pulled back 91.90 to 5,841.83. Veba dropped DM10.60 to DM118.90 as the chief executive, Ulrich Hartmann, said that the diversified utility would probably fail to post 10 per cent profit growth this year or next. He added that it would take a couple of years before the group met its goal for return on capital.

Karstadt was another loser, down DM35.50 to DM873, continuing a fall that began on Monday after Morgan Stanley removed the share from its European model portfolio.

In the opposite direction, *Herlitz climbed DM7 to DM92* after the office supply company laid out plans to cut jobs and close some facilities. The group added that it would focus on sales in central and eastern Europe.

PARIS ended lower, paring early gains that at one stage pushed the CAC 40 index up to a fresh record high. Turnover was heavy at FFr17.6bn and the benchmark finished off 44.79 at 4,203.45.



Valeo, buoyed lately by a big US takeover, ran into profit-taking, slipping FFr34.00 to FFr618. There was heavy selling at Sodexho Alliance after Monday's disappointing results from the caterer sparked a wave of brokers downgrades. The shares came off FFr66 or 6.9 per cent to FFr1,143.

Oils rallied, with Total up FFr5 at FFr790 and Elf Aquitaine FFr18 better at FFr853 on a slightly better day for international oil prices. Banks benefited from a Morgan Stanley upgrade. Paribas gained FFr5 to FFr651 and Société Générale FFr13 to FFr1,258.

Michelin lost FFr4 at FFr350 on news of a South African tyre acquisition. News of a Spanish takeover lifted Dexia FFr11 to FFr813. Strikes at its theme park sent EuroDisney down 35 centimes to FFr12.

Saint-Gobain fell FFr42 or 3.6 per cent to FFr1,121. In a generally dull European hotels sector, Accor lost FFr46 to FFr1,692. Air Liquide gave up FFr40 to FFr1,000.

AMSTERDAM edged higher. The AEX index improved 2.44 to 1,200.30 with Aegon and KLM providing most of the day's upside drive.

Aegon jumped Fl 7.20 or 4.2 per cent to Fl 177 following a busy day for call options in the derivatives market.

Share buyback talk continued to lifted KLM which gained Fl 3.30 to Fl 82.60 for a two-day gain of more than 8 per cent.

Akzo Nobel hardened Fl 4.40 to Fl 452.20 ahead of today's share split. Unilever, removed on Monday from Goldman Sachs' global priority list, fell a further Fl 4.80 to Fl 161.40.

TNT Post, the former KNP postal operations, built on Monday's successful first day of trading, adding a further Fl 1.90 to Fl 52.

MADRID ran into modest profit taking and the general index gave up 7.40 at 883.42. Volume stayed subdued.

Most investor focus was on shares that managed to buck the downward trend. Corporacion Financiera Alba, weak lately on news that it was being demoted from the benchmark index, added Pta120 to Pta16,300.

Argentaria rose Pta90 or 2.7 per cent to Pta3,440 following news of its strategic agreement with Dexia, the Franco-Belgian group which is taking a 40 per cent stake in Argentaria's Banco de Credito Local offshoot.

MILAN ended lower as the introduction of a capital gains tax weighed on sentiment. The US attack on an Iraqi missile site also affected share prices and the Mibtel index fell 136 or 0.6 per cent to 22,827.

Eni, the utility, was helped by the rise in crude oil prices, which were lifted by the US air attack. The shares closed L7 to L11,580 on late buying.

Fiat closed down L233 or 2.9 per cent to L7,804. Honorary chairman Gianni Agnelli said he wanted to keep the family holding in the industrial group, which is currently about 30 per cent, as high as possible.

STOCKHOLM closed almost flat with the general index up 0.88 to 3,672.44. Ericsson closed up SKr1.5 to SKr233 on a rally in technology stocks trimming losses in the US. Astra, the drugs group, fell SKr0.5 to SKr163.

The forestry sector retreated on concerns over pulp prices. The sector subindex was the worst performer of the day, falling 1 per cent.

The jump in oil prices following the US missile attack in southern Iraq helped **OSLO**. The Total index rose 5.19 to 1,297.68 on late buying.

Orkla, which had been sold off earlier this year, rebounded NKr7 to NKr179. News that Hartwall, the Finnish drinks group in which Orkla has a stake, had signed a 20-year deal with PepsiCo to manufacture and distribute drinks in Finland, also supported the shares.

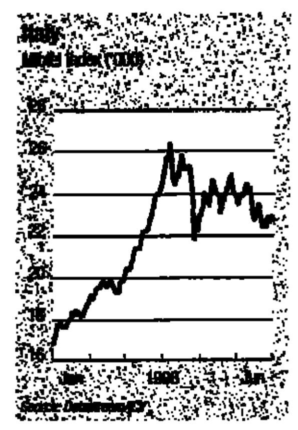
Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Paul Gregan

MARKET FOCUS

Milan wilts in political heat

Italy's early summer heatwave has taken some of the shine out of the Milan stock market.

For the first four months of this year, Milan outperformed its European peers, with the broad Mibtel index showing a 57 per cent rise, peaking on April 6. Since then it has fallen back, trimming the gains from the start of the year to 35 per cent. Paris and Frankfurt, which had both lagged Milan in the first quarter, have now overtaken Italy.



Underlying sentiment remains positive, say Milan dealers, though they admit the *bolsa* has lost some of its appeal compared to France or Germany. Now that Italy has made it into European Monetary Union, the market has again focused on more traditional domestic and international issues that have wiped away the Euro-euphoria of the first months of the year.

Political uncertainties have revived after a vote on Nato enlargement that split both the governing coalition and the opposition. Romano Prodi, the prime minister who piloted successfully the country into Emu against heavy odds, is facing rumblings of discontent within his majority and on the labour front.

Worries over economic growth, unemployment and public finances have resurfaced. Confindustria, the employers confederation, predicts below-target gross domestic product growth of 2.3 per cent this year, while unemployment rose to 12.5 per cent in April.

The market has also had to contend with the introduction for the first time of a capital gains tax on stocks and a heavy flood of new public offers totalling about L19,000bn ($10.81bn) topped by the government's L12,800bn sale of a fourth tranche of shares in Eni, the oil and gas group.

However, the majority of brokers and investment bankers remain relatively confident of the market's longer-term prospects. They talk of "passing summer showers" that are unlikely to alter the fundamentals. Interest rates are continuing to fall. The Bank of Italy is expected to reduce further its discount rate below 5 per cent.

The appeal of once high-yielding bonds has disappeared, pushing Italy's huge army of small savers into equities. The market's capitalisation now amounts to about 43 per cent of GDP. Barely three years ago it was still under 20 per cent. The fourth Eni tranche was heavily oversubscribed. A public offer by Beghelli, a medium-sized company specialising in electronic safety devices, was 27 times oversubscribed.

Corporate attitudes are changing in Italy. The new privatised stock exchange has been slimming down red tape to attract more companies to the market. So far this year, there have been 17 new listings compared with only 13 for the whole of last year.

The summer is likely to remain hot – especially in the political circus atmosphere of Rome – but the market is still optimistic it can rise further.

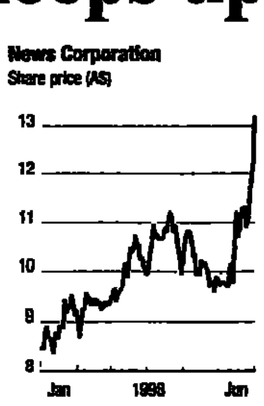
Paul Betts

Tokyo keeps upward momentum

ASIA PACIFIC

Japanese equities surged in unusually heavy volumes as traders in **TOKYO** shuffled their portfolios on the eve of the third quarter, *writes Alexandra Harney*.

The rise marked the fifth consecutive day of improvement for the market and the most sustained upward move since January, when the market managed a six-day improvement.



The Nikkei 225 Average jumped 3 per cent or 464.54 to 15,830.27, after moving between 15,462.24 and 15,830.47. Volume soared to 520m shares.

Heavy industries such as steel were the most heavily traded sectors. Analysts said this was based on the companies' aggressive restructuring.

Nippon Steel was the day's most active stock, adding Y8 or 3.4 per cent at Y244. Kawasaki Steel rose Y9 or 3.7 per cent to Y250. Both companies have recently introduced early retirement programmes to cut costs this year.

NKK, which announced it would close some of its stainless steel operations, improved 5.6 per cent or Y7 to close at Y133. Iron and steel stocks overall gained 2.9 per cent.

The banking sector finished up 2.4 per cent. The Long-Term Credit Bank (LTCB), which has said it hopes to merge with Sumitomo Trust, fell Y16 to Y81 after hitting a low of Y50 last week.

The Topix index of all first-sector shares was up 2.3 per cent or 28.16 at 1,230.38. In Osaka, the OSE climbed 336 to 16,650.

SYDNEY shot forward on the back of an upsurge for News Corp which ended A$1.08 or 8 per cent higher at A$13.18 and helped lift the All Ordinaries index by 47.3 to 2,668.4.

News touched a record high of A$13.65 at one stage in a day of hectic trading as investors warmed to the media giant's plans for floating part of its US operations.

BHP rallied, adding 46 cents to A$13.65. Banks were mixed with ANZ off 9 cents at A$11.14, but Commonwealth advanced 41 cents to A$18.84. Telecoms leader Telstra rose 6 cents to A$4.14.

KARACHI rebounded on news that the supreme court had thrown out a government petition accusing Hub Power, the country's largest private power plant, of overcharging.

The legal manoeuvring over Hub Power had cast a shadow over the market in recent weeks and analysts said that the court's decision was likely to restore a substantial measure of confidence among investors.

The KSE 100 index, which fell 7.5 per cent on Monday after the weekend devaluation of the rupee, picked up 68.58 or 8.46 per cent to 879.61.

JAKARTA jumped 3.4 per cent as strong foreign demand for blue chips was inspired by a stronger yen. The composite index ended up 14.69 at 445.92.

Brokers said the advance was also due to possible window-dressing by companies trying to raise their share prices to improve their financial reports for the first half, which ended yesterday.

Telkom, which accounts for 20 per cent of the market's total capitalisation, recovered to end Rp125 higher at Rp4,175 from an early loss of Rp100 in morning trade.

BANGKOK ended lower after disappointing economic data. Bangkok Bank, the day's most active share, fell Bt1.25 to Bt43.50. The SET index came off 4.28 at 266.92.

SINGAPORE closed lower as investors were unimpressed by the government's $2bn economic stimulus package.

The absence of tax cuts and individual rebates in the package led to a sell-off and the Straits Times Industrials index closed down 18.49, or 1.7 per cent, to 1,066.66.

Singapore Press was among the leading losers, falling 70 cents to S$11.30.

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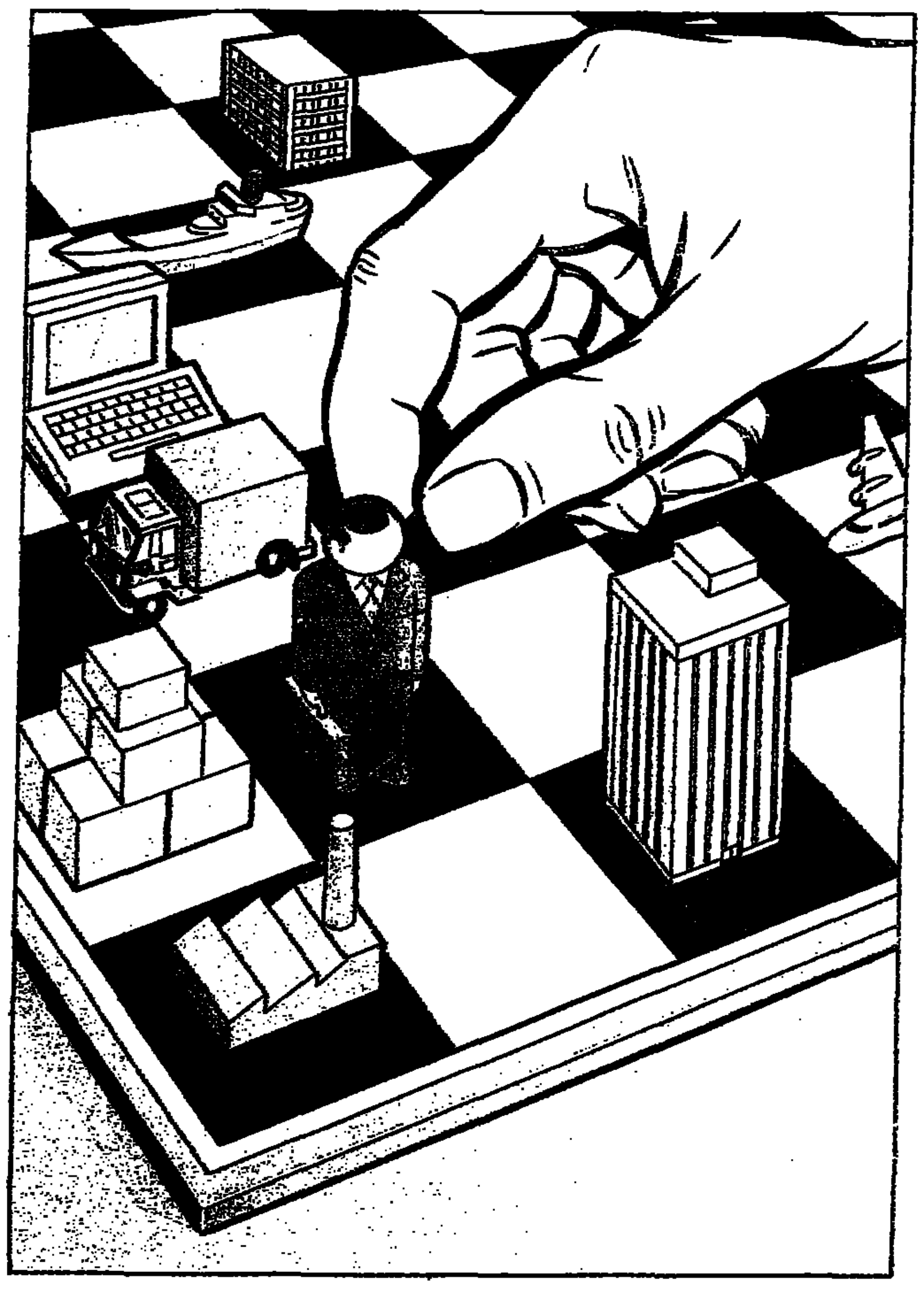
FINANCIAL TIMES REVIEW

Information Technology

Wednesday **July 1** 1998

The world market for software packages that help companies manage and plan business functions more efficiently is worth more than $14bn and growing fast, reports **Paul Taylor**

Better routes for decision-makers



Enterprise Resource Management software packages have taken the corporate market by storm, propelling ERP developers such as Germany's SAP group into the top tier of global software companies and making fortunes for the management consultants, computer services groups and IT professionals who implement new systems.

ERP systems, including those implemented by huge multinationals as well as a growing number of small and medium-sized companies, have become crucial to the management of a wide range of business functions. ERP software is used by companies to manage and plan business functions from order processing to manufacturing and from accounting to personnel.

"ERP is an umbrella term for integrated business software systems that power a corporate information structure, controlling a broad range of activities, ranging from the procurement of supplies to shop floor manufacturing and financial accounting," says JD Edwards, a leading ERP vendor. *(see software report, page 15).*

ERP is the logical extension of a long valued approach to efficient manufacturing processes – Manufacturing Resource Planning (MRP) software.

Indeed, ERP grew out of the MRP software of the 1970s and is an extension of the MRPII software of the 1980s.

Today, it provides the "glue" to bind management functions across geographic sites and the increasingly complex heterogeneous networks that form the "nervous backbone" of big companies such as Boeing, Microsoft and Shell Oil.

"ERP systems are tools to reduce processing costs, such as raising a purchase order," says Dave Anderson, Oracle's director of applications in the UK. "They are all about improving efficiency and effectiveness. At the end of the day, they enable managers to make better decisions."

Indeed, ERP as a concept has entered the lexicon of the boardroom and is often associated with business re-engineering programmes – one reason why the big management consultancies have sized-up ERP system implementation as a line of business.

As JBA, the UK-based ERP software vendor notes: "ERP can be defined as a business approach that starts in the boardroom and permeates the entire organisation. It is a combination of business processes and the supporting or enabling technology."

Last year, the ERP software market grew by around 20 per cent to about $14.4bn, according to figures from International Data Corporation, the market research firm, with many of the market leaders including SAP, Peoplesoft and Baan of the Netherlands growing even faster.

"The market for ERP systems is extremely buoyant," says Mr Anderson. Oracle is another leading software supplier in the ERP market. Mr Anderson argues that increasing business complexity is an important driver behind the rapid adoption of ERP systems, particularly among top tier multinationals.

Among other key factors driving demand higher are:

☐ Moves by companies to control escalating information technology costs.

☐ The shift from proprietary mainframe systems toward industry standard hardware and client/server systems built around the Microsoft Windows NT operating system.

☐ The shift from bespoke software applications developed in-house towards the use of 'off-the-shelf' packages.

☐ The so-called "Millennium bomb" – the year 2000 software problem – which has encouraged many companies to buy new software, rather than adapt existing packages.

☐ The introduction of the euro currency.

The last two factors, in particular, have spurred adoption of ERP systems over the past two years as companies and other organisations across a wide range of industries have grappled with the issues of year 2000 and Emu-compliance and decided sometimes to replace ageing legacy systems rather than attempt to fix date codes.

"The year 2000 issue has been an important catalyst for ERP," says Andreas Bottema of Baan, the Dutch ERP group which recently extended the finance capabilities of its BaanSeries software through the acquisition of Britain's Coda group.

Early adopters of ERP software implemented systems for competitive advantage, but specialist IT consultants, such as Axon argue, that ERP has moved into the business mainstream. "ERP is an entry ticket to play the game," says Mark Hunter, founder and chief executive of Axon Solutions, the UK-based technology consultancy with particular expertise in SAP.

Uniquely in a software industry dominated by US giants such as Microsoft, Computer Associates and Oracle, European software developers have emerged among the leaders of the ERP market. Aside from SAP, which, with more than 60 per cent market share, is far and away the dominant player in the fast-expanding ERP market, Baan of the Netherlands has also been growing quickly.

With around a 13 per cent share of the global ERP software market, Baan ranks number three in the world behind SAP, and Oracle of the US, but ahead of US rivals, PeopleSoft, SSA and JD Edwards.

Last year, Baan, whose suite of ERP applications is designed to meet the requirements of a wide range of sizes of company, reported a 65 per cent increase in revenues to $684m. Profits more than doubled to $77.2m. Meanwhile, SAP, its bigger rival, reported a 62 per cent increase in sales to $3.36bn and a 63 per cent increase in profits to $519m. Shares in the group which is based in Walldorf, southern Germany, have soared over the past few years as it has strengthened its hold over the market. "SAP is still the undisputed 'king of the hill' in terms of its share of the business applications market and product scope," says Ovum, the London-based IT consultancy in a new report.

"SAP will remain the market leader in the business application arena for the foreseeable future," says Dennis Keeling and Laurent Lachal, authors of the Ovum report. "Its R/3 product suite may not be the most exciting client-server solution, but it is certainly the most robust, scalable and proven one."

Its growth has made SAP, *which was founded 26 years ago*, one of the four biggest German companies in terms of market capitalisation and the fourth largest independent software group in the world.

However, the analysts warn that SAP's slow approach towards "componentisation" – splitting ERP program suites into their constituent parts, enabling customers to "mix and match" products – "could leave the door open to more nimble competitors."

The move towards separating out ERP systems into separate but tightly integrated components bound together by a core database is a key trend withing the ERP software sector and one which is endorsed by most users because it enables them to pick "best-of-breed" components for different functions.

"SAP will find it hard to maintain its growth rate and influence as alternative solutions from competitors become well *known," claims Mr Keeling.*

Today, SAP's fastest growth is in the public sector, in aerospace and defence, and in banking and finance. Germany, Japan and the US are its biggest markets but it is attacking other countries, including the UK, where it has won big contracts with such corporate behemoths as British Aerospace and Barclays Bank. In the current year it plans to expand its workforce by almost 40 per cent, creating 5,000 jobs.

Most of SAP's clients have been large multinationals, while Baan has sold mainly to smaller and medium-sized companies. But it often takes 18 months to implement a full SAP system and may involve the overhaul of existing business systems. That has prompted complaints that management consultancies and computer services companies are the big winners from industry growth.

In response, SAP and its partners have developed products and "methodologies" to make *implementation quicker and* easier. "Ten years ago you had to be a rocket scientist to implement an ERP system, but that is not true today," says Axon's Mr Hunter.

Meanwhile, with the market for ERP systems among the biggest companies beginning to show signs of saturation, SAP and other ERP vendors are turning their attention toward the much broader and largely untapped medium and small-size companies. This is essential if they are to maintain the rapid *growth that they are currently* enjoying.

"The Fortune 500 market is limited, and smaller companies can't afford to spend $50m on implementation," says Tim Harmon, senior programme director at Meta Group, the independent analysts.

"We are also seeing more decisions by user organisations to implement a solution that involves either no changes or with only 10 per cent modification, so that they can control the implementation. Their focus is to get it working and then go back after the fact to re-engineer more business processes."

Meanwhile, Gartner Group, the independent analysts, has developed the concept of "effective functionality", which is the measure of how quickly, and therefore effectively, an *application's functionality* can be deployed.

Another approach is to integrate third party solutions in areas where they offer competitive advantage. "We expect people to use a large suite for most systems, but to work harder on redefining processes in areas where there is competitive advantage," says Jonathan Chevalier, head of strategic development at Druid Group, the management consultancy. "They will use a best-of-breed software package to support them in order to differentiate themselves from their competitors."

ERP software developers could also face another challenge. With the deadline rapidly approaching for achieving year 2000 and Emu compliance some analysts and companies have suggested that the ERP market could slow markedly next year. SAP, in *particular, has warned that its* growth rate in the second half of 1998 will slow.

ERP Software licence sales: revenue

$m	1994	1995	1996	1997
SAP	692	1350	1730	2370
Baan	60	113	224	437
Marcam	33	43	45	57
SSA (e)	225	227	226	303
JBA (e)	55	77	113	156
JD Edwards	108	134	180	248
Tetra	15	16	15	17
Peoplesoft	89	134	253	433
Market	1258	2098	2787	4021
Market growth (%)		66	33	44

☐ **Focus on enterprise computing:**
FT correspondents interview the chief executives of leading software companies – Symantec (see page 3) plus *JD Edwards* and PeopleSoft, page 15

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IT NEWS UPDATE

Microsoft's victory in its injunction appeal may have undermined the US Justice Department's antitrust case, writes **George Black**

Good week for Microsoft

News that a US appeals court had lifted the injunction against Microsoft's packaging its Internet Explorer browser with the Windows operating system sent the company's share price soaring last week to a new high of $102¾.

The appeals court decision raises doubts about whether the Justice Department will succeed in its larger antitrust action against Microsoft, which is backed by 20 states.

Microsoft may not yet be entirely off the hook in its legal battles with US trustbusters, but last week's decision by the Washington appeals court which overturned an injunction to forcing Microsoft to separate its Internet browser program from Windows 95, was nonetheless a significant victory.

The appeals court supported Microsoft's contention that the browser was closely integrated with Windows and not a separate product. This contradicts what is apparently an essential element of the case brought by the Justice Department, which argues that Microsoft is unfairly forcing personal computer manufacturers to take the browser when they buy Windows.

The appeals court, which was split two-to-one, condemned the injunction imposed by Judge Thomas Penfield Jackson, who is due to hear the Justice Department's case in September. The court said the injunction was both procedurally and substantively in error.

The Justice Department said it was disappointed by the appeal court's decision but remained confident that the antitrust case against Microsoft would succeed.

The decision does not involve Windows 98, the latest version of the operating system, which has just been launched.

Meanwhile, Netscape, the pioneering browser vendor which has been hurt by Microsoft's entry into that market sector, has announced that it intends to change direction and concentrate on promoting electronic commerce.

Its Navigator product has been severely affected by the contest against Microsoft since it was forced in January to follow the leader and offer its browser software free to users.

Last year, Netscape made a net loss of $115.5m and last quarter it just broke even. Not long ago a stock market favourite, it is now widely viewed with scepticism and is struggling to convince both the investment community and the IT industry that it has a viable long-term strategy.

Presenting that new strategy to the media, chief executive officer Jim Barksdale likened the electronic commerce market to a "land grab, with businesses rushing to stake out their territories on the Net." Netscape's new role will be to provide Internet commerce services and attract many more people to its Internet site where they will be linked up to other businesses.

The company intends to produce new electronic commerce software by the end of the year and will issue credit cards for online purchasing. When registered with Netscape, consumers will be able to buy goods from other sites with their credit rating already approved. Traders will benefit by knowing more about the interests and lifestyles of customers who come to them through Netscape, says Mr Barksdale.

However, Netscape has by no means given up the browser war and claims to hold around 60 per cent of the market. It believes that the prospect of the antitrust case may be influencing PC manufacturers to be more willing to adopt its browser alongside Microsoft's. IBM, Gateway and NEC have said they intend to offer users a choice of browser.

ANTITRUST ACTION

Now it's Intel's turn

Intel now faces antitrust legal action in the US, paralleling the case against Microsoft.

The Federal Trade Commission is filing a lawsuit against the world's largest chip manufacturer, alleging that it is using its monopoly position to try to lock others out of the market and prevent competition.

The FTC's lawsuit cites three cases in which Intel has withheld or threatened to withhold information from customers viewed as potentially competitive. These cases involved patent disputes between Intel and systems manufacturers Intergraph, Digital and Compaq.

The three claimed that Intel's refusal of access to information on chip designs damaged their competitive position. Intel has not denied withholding information, but argues that it is within its rights to do so and that the FTC cannot force it to share its intellectual property or to do business with any particular company. Intel also argues that the FTC has not shown that competition has been affected by its actions.

As with the Microsoft case, the FTC's action is bound to create great uncertainty in the IT industry over a long period. Observers say that the case against Intel is narrower than that against Microsoft and in some ways less persuasive. Intel faces increasing, though still marginal, competition in the chip market, whereas Microsoft's monopoly position in operating systems grows ever stronger. However, this does not mean that the FTC's specific charges will not stick. A federal judge in Alabama ruled in April that Intel had abused its monopoly power by withholding information from Intergraph to prevent it competing with Intel's graphics chips.

The Intel case, like that against Microsoft, has sparked a public debate. Federal Reserve chairman Alan Greenspan said that antitrust officials should not indulge in "heavy" regulation which would stifle innovation and wealth creation. He questioned the ability of officials to forecast how markets would evolve.

But William Baer, director of the FTC's competition bureau, insisted that the action against Intel was necessary to stop it abusing its monopoly power by compelling the computer industry to buy its products. A preliminary hearing is scheduled for July 10.

❑ Meanwhile, Intel is this week launching its new Xeon chip, despite reports of bugs in the new high-powered microprocessor. But Intel explains that all new chips have bugs and that the process of debugging and improving performance inevitably continues even after a product is in the market.

The Xeon Pentium II chip is at the heart of Intel's new strategy to segment the computer chip market, offering more basic products for low-cost personal computers, and higher-priced, more powerful chips for advanced servers and workstations.

THE MILLENNIUM 'BOMB'

Warning of a 'blitz of calls'

Worries over the year 2000 computer date problem continue to trouble the IT and business worlds, just six months before preparations should be completed in the view of most experts.

The UK's House of Commons Public Accounts Committee chairman David Davis expressed concern over the progress of the government's preparations.

The Central Computer and Telecommunications Agency said the government would not be fully ready for the date change until December 1999.

The Audit Commission said the National Health Service's year 2000 project had fallen seriously behind schedule, though the public services minister David Clark responded that the Commission had under-estimated the steps which had been taken.

The US Securities and Exchange Commission intends to require more disclosure by public companies on their year 2000 status for the benefit of investors.

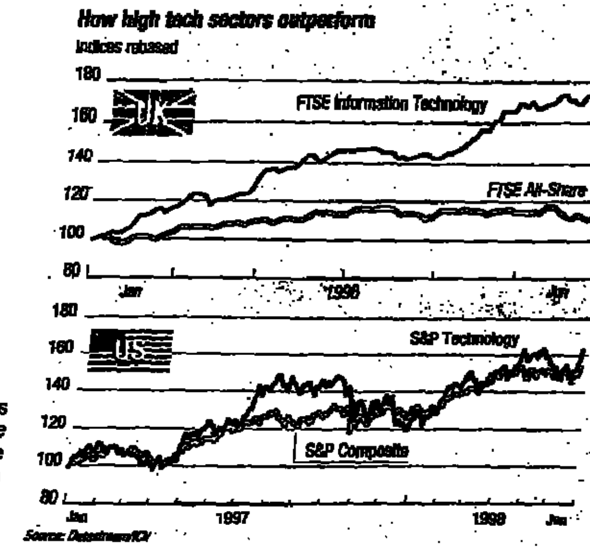
Many banks are not addressing the problem adequately, according to Swiss Bank Corporation official Andy Siciliano. He told the forex conference in Geneva that Japanese banks were especially backward.

Also the shipping and ports sector is said to be slow in tackling the problem. Awareness in that sector is "below average," says Mark Holford, a director of Thomas Miller Risk Management, and there was little of the necessary co-operation to find solutions.

Companies are failing to anticipate a "potential blitz" of enquiries about year 2000 problems. Their call centres will be unable to cope, warned David Studd, director of software developer Information Management Associates, at the recent Telebusiness conference in London.

How high tech sectors outperform

Indices rebased



Source: Datastream/ICV

RESEARCH DIGEST • By George Black

Unix 'overtaken' by Windows NT

Windows NT has overtaken Unix as the most popular network operating system in *the UK, says the annual survey* of the industry by Banner. It is installed in 46.5 per *cent of large organisations,* compared with 30.68 per cent last year, while Unix is used *by 46.4 per cent compared* with 39.88 per cent last year.

Windows 95 dominates on *the desktop with 88.18 per* cent of large organisations using it compared with 66.3 *per cent in 1997.*

Race to go online

Internet usage will grow rapidly in the next few years as companies adopt the Internet protocol (IP) for electronic commerce, says Schema, the UK-based consultancy. The Internet "represents the fastest-ever take-up of new technology," notes its report. Three million European companies will be engaging in electronic commerce by 2003 and *it will make up around a quarter of their revenue.*

Germany's SAP 'still leads'

The SAP software group is still undisputed leader in the business applications market, according to a study by the UK-based Ovum consultancy. The research claims that SAP's principal competitors, Baan and Oracle, are struggling to keep up in the development race. Ovum says that SAP's R/3 suite is the most robust, scalable and proven system and its Emu offering is at least six months ahead of its nearest competitor. *See also our cover story on enterprise resource management (ERP) software.*

UK behind in euro preparations

Financial services organisations are the most advanced in preparing for the euro in the UK, but even they lag way behind competitors in other European countries. Many UK organisations, including some financial services companies, are still at an early planning phase or have done nothing at all about the euro. These are the main findings of a survey carried out for Unisys *(www.unisys.com)*, the information systems company which supplies *technical solutions to many financial institutions.*

Piracy rate cut

Software piracy has been *reduced in western Europe* to 39 per cent of the total from 43 per cent last year, *according to a survey for the* Business Software Alliance. The UK has the lowest rate *in western Europe at 31 per* cent, Greece the highest at 73 per cent. Eastern Europe has the world's highest proportion of illegal copies at 77 per cent. Worldwide, the *software industry lost* $11.4bn last year through *illegal copying.*

Internet telephony set to boom

Internet protocol-based telephony will take 36 per cent of the market for calls *on international routes by* 2003, predicts the UK consultancy, Analysys. IP traffic *will overtake standard* telephony by 2000, it says, threatening the financial position of the established telecommunications operators, but also greatly increasing the size of the market in the longer term. Established operators are in a quandary, because to plunge into the IP market risks cannibalising revenues from existing services.

A call for 'e-champions'

Electronic commerce needs "e-champions" to make it effective, concludes UK market research firm Spikes Cavell, after studying attitudes among businesses in a survey conducted for IBM. Many British companies are introducing electronic commerce without any clear strategy, it says. E-commerce champions are needed to bring the piecemeal efforts together into a coherent strategy and prevent UK businesses falling behind international competitors.

THE MONTH IN BRIEF

Nortel buys Bay Networks

Nortel (Northern Telecom), the Canadian telecommunications equipment maker, has bought Bay Networks, the US data *networking company, for $9.1bn. The deal, which ends* protracted speculation about Bay's future, creates a new force in the converging computing and communications *industries and a much stronger challenge to Cisco (see company profile, page eight)* and 3Com than Bay could establish on its own.

This is the third and largest acquisition by telecommunications manufacturers in the data networking area in recent weeks. Tellabs bought Ciena for $7.1bn and *Alcatel Alsthom bought DCS Communications for $4.4bn.*

Convergence of the markets was also illustrated by the patent infringement lawsuit launched by Lucent against *Cisco, involving routers and Frame Relay and Asynchronous* Transfer Mode equipment.

The end of Digital

Compaq has completed its take-over of Digital Equipment *and plans to turn it and Tandem into branches of the* Compaq corporation under a single management structure. The deal brings to an inglorious end the 41-year history of *Digital as an industry leader. Compaq hopes the move into* services will strengthen its position in competing for large corporate accounts, particularly against IBM. Some users *have welcomed the acquisition and believe it could bring* better service and simpler purchasing.

Motorola cuts 15,000 jobs

Motorola is to cut 15,000 out of its 150,000 workforce worldwide, mainly because of falling demand and downward pressure on prices in the chip market. The company announced a $1.95bn second-quarter pre-tax charge in an attempt to improve its flagging financial position.

In a broad re-structuring, some parts of the business will be dropped and manufacturing will be consolidated. The chip and computer operations will be most affected, but the mobile phones and pagers branches are also involved.

Micro Focus buys Intersolv

Cobol tools supplier Micro Focus has bought the client/server tools developer Intersolv for $534m. The deal will create a company capable of providing a complete toolset *for IT departments, according to Micro Focus's president* and chief executive Martin Waters. Both companies have been buoyed by the high demand for tools to fix the so-called millenium 'bomb' problem. The combined venture will be aiming to compete with leading tools vendors, such as IBM and Sterling Software.

Sterling is to acquire Synon, the supplier of development tools for the IBM AS/400, for shares valued at around $79m.

Reassurance for AOL staff

Internet service provider America Online (AOL) has told its *employees that it is not interested in a bid rumoured to be* imminent from long-distance operator AT&T. Steve Case, AOL founder, said the company wanted to remain *independent. But the news of the possible bid pushed up* AOL's share price by 5.7per cent and other ISP stocks followed. The bid is said to have valued AOL at between *$32bn and $32bn, compared to a current market value of* around $20bn. Meanwhile, AOL bought Mirabilis, the Israeli developer of the ICQ ("I seek you") real-time Internet communication program.

Internet Bookshop sold

W H Smith, the leading UK bookshop chain, has bought the Internet Bookshop, the fledgling UK-based Internet commerce business, for £8.8m. The price was more than four times the Internet trader's sales and the acquired company made a £406,000 loss. But some analysts argued that it was a small price for W H Smith to pay to have a place in a potentially explosive market which could eventually challenge its traditional business.

Investment in Scotland

Packard Bell NEC, the US-Japanese owned leading personal computer manufacturer, is to invest £26m in a new manufacturing plant at Livingston in Scotland. The aim is to move to the build-to-order business model which is proving most successful in the PC market. It will sell through NEC Direct, a direct sales operation for the UK and France launched last year.

The plan is to create over 800 new jobs in West Lothian by 2002 and to double the company's European production.

George Black's e-mail address: gbg26@dial.pipex.com

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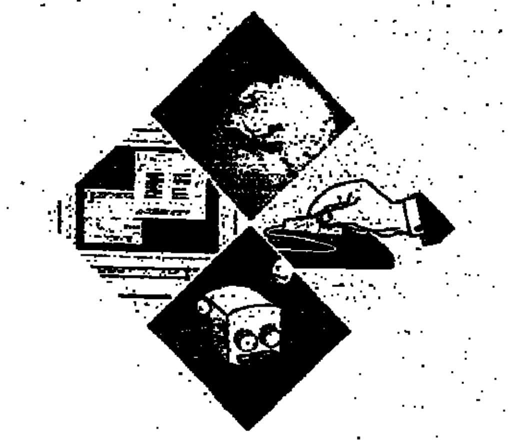

The FT Review of Information Technology

This review is published on the first Wednesday of the month. In addition, FT-IT features appear in the 'Inside Track' section of the FT on each of the other Wednesdays of the month. The IT Appointments section is also published each Wednesday.

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Writers in this issue, (volume four, number eight):
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Successful software companies value people more than rigidly focussed infrastructures, says Gordon Eubanks, head of Symantec, one of the world's leading software suppliers. This interview is by **Geoffrey Wheelwright**

Adaptability pays on the acquisition trail

All too often, personal computer software companies burn brightly for a short period, raise large amounts of money in initial public offerings (IPOs) and then "flame-out". There are few long-term success stories.

But Symantec Corporation has to be one of those successes – and much of the company's progress can be attributed directly to the efforts of its president and chief executive, Gordon Eubanks, who has built a $600m business "the old-fashioned way".

Symantec, founded in the US in 1982, is one of the world's largest software companies, selling a vast variety of software applications – including the popular Norton Anti-Virus virus detection software, the Norton utilities computer diagnostics suite, WinFax computer faxing software, ACT! contact management software and pcAnywhere "remote control" application.

The company also produces a variety of software development tools – including recent releases that allow programmers to create software in the Sun Microsystems' Java programming environment.

The company also has a long history of applications that it has abandoned when the market for them disappeared – including the GrandView word-processor/outliner and the Norton Desktop for Windows file and desktop management utility.

In his earlier years at university, Gordon Eubanks developed a fascination with computers. In 1976, he wrote a compiler program as part of a computer science masters' degree. For a while, he was a naval officer aboard American nuclear submarines, learning also how to work under stress in technical work during three-month undersea voyages to track Soviet submarines.

While he was at sea, his mother built up the software company he had established. This he sold to Digital Research where he worked, after leaving the US Navy.

Mr Eubanks worked with some of the founders of the PC software industry. He and others set up C&E, a software company, that turned into Symantec which he acquired in 1984. Within five years he was on his way to a fortune estimated at $100m. Now, with 20 years' experience in the PC software business, he says the key to his company's success lies in being able to adapt to changing circumstances.

"In all my research on companies that last 100 years, there are two striking characteristics about the successful ones," he observes. "Firstly, they value people more than infrastructure – and, secondly, they are willing to change the businesses that they are in. There is this dichotomy about being 'focused', but not being blinded to the opportunities," he adds.

"You need to have a way of keeping an open mind. But we do have to be realistic about what we can and cannot do. So many companies fail by running down every alley that looks exciting."

Gordon Eubanks: "I stay focused on customers and what they want"

Much of Symantec's growth as a company has come from an aggressive programme of mergers and acquisitions. In 1990, Symantec acquired Peter Norton Computing, the anti-virus and utility software company, for $70m. The following year it acquired Dynamic Microprocessor Associates and Zortech, the C++ development software company.

In fact, many of the main products in the company's current product catalogue – including WinFax, the Norton product family and pcAnywhere – have come to it through acquisition. And Mr Eubanks is quite clear on what he sees as the key ingredients to a successful acquisition: "Over the years we have refined our process of integrating acquisitions," he explains. "We can now carry it out rapidly and effectively – and some have gone better than others. The biggest factor in determining their success has been in terms of what was really there."

He says that in the company's early days, he did make the mistake of buying companies solely on the basis on some hot, new product that was receiving critical acclaim, rather than looking at the underlying strengths, weaknesses and future prospects for the company itself.

"Our problems have not really been in integration but in our expectation of what the product is – I will never buy a company on the basis of another product X," he adds.

"I blame ourselves for this and not them – the people selling the company. So I said let's never buy another product that is in the *beta* stage – let's buy what exists. So we are being much more realistic about where products are in their development cycle.

"We have learned a lot about that now versus five years ago. We are more interested in acquisitions that fit into the directions we are going rather than acquisitions that are 'defocusing'.

"We are very much asking the question of what is our strategy *and what acquisitions* would enhance that strategy."

Mr Eubanks contrasts his approach with that of Philippe Kahn, founder of Borland International. Mr Kahn is a friend and contemporary of his, despite the fact that Borland and Symantec have faced on another on opposite sides of legal action in the past.

Mr Kahn is perhaps best known for buying his largest competitor in the database market back in the early 1990s, only to see Microsoft quickly march off with the lion's share of the PC database market within a year of Borland taking over Ashton-Tate's dBase product line.

"If you stay focussed on *customers* and not at each other in the industry, you are going to do a lot better," he says. "Philippe Kahn and I have been good friends for years – he is a nice guy, with a colourful personality – but I think his 'barbarian culture' (of aggressively taking over a direct competitor) hurt Borland tremendously.

"I stay focused on customers and try not to make these things into personal battles. Customers know what they want – even if we spend too much time telling them what they want."

Surprisingly, perhaps, Mr *Eubanks does not* see the software giant Microsoft as an unfair competitor, despite the fact that Microsoft's "folding-in" of many utility and desktop management functions have caused Symantec to shelve a number of its own products – such as Norton Desktop for Windows.

Mr Eubanks was definitely not part of the "*anti-Microsoft*" group that assisted the US Department of Justice in its investigations of the company.

In any case, Microsoft last week won a big victory in its antitrust battle with the US govenment when an appeals court overturned a ruling against its contoversial Internet software.

Prior to the ruling, Mr Eubanks had often warned that he had concerns about the government attempting to decree what could – and could not – go in to future versions of Microsoft operating systems.

"The government isn't my choice of designer for operating systems," he says. "I think, *for example*, that there is a tremendous rationale for having a browser built into the operating system."

Symantec's man at the top

Gordon E. Eubanks, is president and chief executive of Symantec which was founded in 1982. The company's global operations span north America, Europe, Japan and parts of the Asia Pacific and Latin America.

Career: *Previously*, Mr Eubanks was vice president of Digital Research's commercial system division, where he was responsible for the *development and marketing of* system software products. He left Digital Research in September, 1983. Mr Eubanks founded Compiler Systems and authored its products: CBasic, one of the first successful languages on personal computers; and CB80, a compiled version of CBasic. Compiler Systems was *acquired by Digital Research in 1981*. Mr Eubanks received a degree in electrical engineering at Oklahoma State University and a Masters degree in computer science from the Naval Postgraduate School in Monterey, California. From 1970 to 1979 he was a commissioned officer in the US Navy, serving with the Nuclear Submarine Force.
He has served as president and chairman of the board of directors of the Software Publishers' Association.

A sector under siege

The next decade may well be decisive for banks and other financial service suppliers. Technology opens the way for new services – and with it comes a continual threat from new competitors, eager to cut into their market share, reports **Paul Taylor**

The financial services industry is a sector under siege, driven by the challenges of globalisation, consolidation and new competition in a market where developments such as the rapid growth of the Internet, online banking and electronic commerce are re-writing the rule book for doing business.

"Beset by the desire to achieve scale, driven by the fear of globalisation and burdened by the headache of systems complexity, banks are re-assessing their strategies to focus on brand and client value," notes Datamonitor, the IT consultancy, in a report on IT in European retail banking.

Meanwhile, a recent paper prepared for IBM notes: "Technology has reduced both the role and value of financial intermediaries, collapsing margins in many banking businesses, including brokerage, corporate lending and global custody."

The implications of these changes are profound.

Investment banks are sharing trading models and distributing research over the Internet, electronic markets are being established by exchanges and other institutions, new direct banks are appearing almost daily, offering a full range of services by phone, ATM or PC, adds the report. "Brokerage firms are offering online securities trading and access to real time market data and sophisticated investment management tools."

For example, in London, Salmon Smith Barney has built an integrated web-based electronic trading system for its institutional customers which combines research, market price and other data with the ability to trade blocks of shares automatically.

Meanwhile, currency and other commodity traders operate around-the-clock passing the book from one office to the next in a never-ending race with the spinning world. Similarly, pension funds balance their portfolios by investing around the globe while retail and merchant banks have followed their industrial and commercial customers overseas in search of new markets.

Nowhere in the financial services industry are these changes more dramatic than in the banking sector. "Perhaps more than ever in the history of banking, we are witnessing dynamic change in our banking industry – some would even call it a revolution," Lars Nyberg, NCR chairman, told bankers attending the group banking seminar in Dubai last month.

These revolutionary changes are happening rapidly and while they are causing chaos and confusion today in many ways, they will define banking for the next generation, added Mr Nyberg. "Massive change creates new challenges to remaining competitive and profitable. Without the right information, for example, banks have no way of knowing and serving consumers well enough to stay ahead of their competition."

Information technology is both a key instigator and catalyst in this period of dramatic change. "As technology becomes increasingly embedded in the strategies of the retail banks, IT decisions are shifting from an information level to an executive level – and spending has rocketed in recent years," says the Datamonitor report.

The challenge facing retail banks from technology is two-fold, argues the report. On the one hand technology has enabled retail banks to greatly improve efficiency ratios, reshape their distribution strategies and enter new and lucrative market sectors. But it has also been accompanied by increasing complexity as banks grapple with managing diverse distribution channels, overcoming the hurdles of the Year 2000 computer date problem and understanding the impact of European Monetary Union.

Fuelled by the dual requirements of Emu and year 2000 compliance and coupled with intense competitive pressures, IT expenditure by European banks is set to peak in 1999 at $21.7bn, says the report.

After this period, Datamonitor suggests that expenditure will tail off to just over $20.2bn in 2002. "Although competitive pressures will persist and the need for large-scale integration work following further mergers and acquisition activity will continue, levels of IT investment post-2000 will fall into temporary decline."

For the moment, however, IT spending by the financial services sector is booming, fed in part by the unprecedented level of M&A activity in the industry. Last year, 40 per cent of the top 20 mergers in the world involved banks – including two of the top three mergers which have themselves now been topped by the proposed $76bn merger of Citicorp and Travelers.

In Europe, too, a wave of consolidation is under way as banks and other financial institutions combine in order to face competition from within the sector and from new entrants such as retailers and other strong brands.

"Europe is vastly over-banked," says Larry Hirst, general manager in charge of IBM's banking, finance and securities operations business in Europe, Middle East and Africa.

The number of banks in Europe is set to fall by over a quarter in the next 10 years, says Mr Hirst in a recent IBM report on the industry. "We have seen this trend happening in the US where the pressures of deregulation, competition and the spread of telephone and electronic banking has already reduced the number of banks by 27 per cent between 1985 and 1994."

The president of technology and operations at NationsBank has called information and technology the "fuel" behind the bank consolidation drive. The new so-called "mega-banks" are betting on technology ranging from data mining to interactive banking web sites to drive down costs, expand their reach over large geographic areas and increase customer revenues.

The mergers are erasing the lines between different types of financial services. And the plan is for technology to enable sales of everything from mutual funds and insurance policies to simple checking accounts for consumers all around the globe.

As NCR's Mr Nyberg noted, some of the recently mergers on both sides of the Atlantic are aimed at transforming banks from "standalone businesses" to organisations capable of delivering full financial services including banking, investment and insurance products and services.

"The move to full-financial services may be one of the strongest indicators on where the next generation of banking is headed," he says. However, as with other speakers at the Dubai conference, Mr Nyberg also notes that "fewer, larger banks will create further distance between the bank and each individual banking customer."

It is yet another step away from the days of local branches and small-town banking where bank managers knew the names and needs of each individual customer. "Only the right information tools can combat this 'depersonalisation' and help banks to continue knowing and effectively serving customers."

Financial institutions' technology focus "has been on the back-end – automating transaction processing and settlement," observes Forrester Research in a recent report. "However, in open finance, winners must build complicated electronic connections that 'face out' to the customer."

One-to-one marketing, database marketing and data mining are all being used by financial institutions in an effort to build and sustain closer and more profitable relationships with customers who, thanks to the Internet and other new delivery systems including the telephone and PC, have much wider access to information and potential competitors' rival offerings.

Financial services firms are also trying to use IT systems to help them decide which customers they want to keep and which ones they don't mind losing. "One of our bank customers recently used our data warehousing solution in determining that around 1,000 of its one million customers were driving 10 per cent of the revenue," notes Mr Nyberg.

"The cost of losing one of these top customers to a competitor was worse than losing dozens of mid-range or low-range customers. Once it knew *which* customers were most important to keep, the bank updated its service-delivery channel strategy to best meet the needs and desires of these top customers."

Technology addresses internal issues driven by bank mergers as well as marketing and sales strategies. Consolidation often brings together different legacy systems from the various banks. These typically do not work well together and make it impossible to come up with an integrated operational view of the overall new enterprise.

For example, one of NCR's European banking customers ended up with data in eight different databases. Not only was it impossible to get a single view of customers, the bank could not even verify how many customers existed. Maintaining the separate databases was costly, and the lack of customer knowledge was causing marketing programs to fail.

Aside from M&A activity within the industry, the competitive landscape is changing dramatically in recent years. In the US, companies such as AT&T and General Motors have come from nowhere to grab a large chunk of the credit card business while, in the UK, retailers such as Marks & Spencer, Sainsbury, Tesco and Virgin have all entered the financial services market in the past 18 months.

One of the most threatening new competitors for banks are retailers. Many analysts believe it will not be long until fast-food restaurants or entertainment companies are considered feasible alternatives to keeping money in a traditional bank.

The impact of these changes is already apparent in some markets. For example, in the US in 1975, the typical American had 36 per cent of his or her assets in a bank. Today, it is less than half of that. Banks will be forced to confront such issues head-on if they are to survive in an increasingly electronic and digital world.

Consumer surveys suggest that the next generation of banking consumers will be much more open to technology playing a larger role in the delivery of financial services. Payment preference data indicates that by the year 2000, 65 per cent of all households will be doing some type of electronic bill payment.

This could be an opportunity for banks and other financial services firms to provide these services. Or it could be a threat if they let new competitors use technology to cut into their market share. The next decade may well be decisive for the industry.

FT IT

Crucial role for IT in the world of finance

Here and on the following eight pages, FT writers highlight the crucial role of IT in banking and financial services

Traders working on the floor of the New York Stock Exchange. Technology is bringing big changes to all the world's leading exchanges. Investment banks are also sharing trading models and distributing research over the Internet. Brokerage firms are offering online securities trading and access to real time market data and sophisticated investment management tools AP

ELECTRONIC COMMERCE AND FINANCIAL SERVICES • By Nuala Moran

Banks face a threat from online start-ups

Long-established financial institutions are often held back by inflexible IT systems

Bank and financial institutions ought to be in the vanguard of developments in electronic commerce – after all, they are highly computerised and their products consist only of information.

But while it is possible to do personal banking, arrange mortgages and buy shares, insurance and pensions on the Internet, in many cases the companies that offer these services are new to the market. Financial institutions find themselves in hot competition with start-ups, supermarkets and high street stores, as well as being challenged by counterparts from the US, that were previously excluded by geography.

As Kurt Christopherson, product marketing manager at 3Com, the network products and services company, notes: "In terms of e-commerce, banks and financial institutions in Europe don't seem particularly advanced and sophisticated – yet. They are quite far behind the Americans." But he adds: "'Quite far' these days *may* be measured in months."

The new entrants are targeting the most valuable customers. Mr Christopherson says that the kind of people who are turning to the Internet to buy financial services are in the "ABC1" category. "Typically, 30 per cent of the banks' profits come from 80 per cent of its customers. New Internet services are taking the consumer clientele that the banks most want to keep."

The threat to traditional financial services companies comes not just because of convenient out-of-hours access to accounts and financial portfolios, but also from the way in which customers are using the Internet as a source of information and advice. "Financial institutions take money off you and invest it. At present, this process is 'shrouded' and difficult to understand. The Internet makes it transparent and easy," he says.

For example, there are Web sites which run comparisons of competing retail investment products. If you are looking for a mortgage by traditional means, you might have the energy to compare five or six products. But over the Internet it is possible to compare 200. "The problem for financial institutions is that if they are not in the top five in terms of cost, consumers on the Internet will not even look at them," he adds.

The Internet also provides the means to overcome the inertia many experience when they contemplate moving accounts or making changes to financial arrangements. "It makes it easy to monitor your financial portfolio – and then instantly make changes," says Mr Christopherson.

Mike Hudgell, director of corporate marketing for the financial software and services company Gresham Computing, believes that the early adopters have the edge. "It is as clear as day that banks and financial institutions face a threat from start-ups and from well-respected companies in other sectors."

One of the main problems for the banks in facing up to this competition is that they are giving other issues, including the year 2000 computer date problem and the new euro currency, a higher priority.

Banks are also held back by the inflexibility of their existing IT systems. While they are beginning to think about redesigning their systems architecture to focus externally, as yet very few banks offering Web-based services have integrated them with the core back-end systems.

Chris Read, managing consultant at PA Consulting Group, believes banks and other financial institutions do have opportunity to provide infrastructure services to new entrants in the market. "This will leave them free from competing in a very hostile and fragmented marketplace, and enable them to make money from providing the banking infrastructure."

In this scenario, the survivors will be those who have flexible and open IT systems which can be easily plugged into the service provider's systems, or be used to host the entire application.

If the outlook is bleak on the retail side, a more pressing question for the financial institutions is what their role will be in business-to-business e-commerce networks. For the last 15 years, large manufacturing companies have been in the driving seat in this area of e-commerce. They have used traditional electronic data interchange (EDI) to exchange orders and invoices with their suppliers over managed networks.

Although this includes sending instructions to pay suppliers electronically, the banks have not been in the main stream of electronic commerce on EDI networks.

Smaller companies also benefit from online services

Richard Lowrie, a senior consultant at IBM's banking group, sees the banks struggling to maintain their position. "In traditional commerce, the banks have a critical part to play in transactions. But in electronic commerce it is the customers at the centre of the hub – such as Marks and Spencer, the retailing chain, or General Motors – which set the standards for how suppliers deal with them, providing the potential for the banks to be cut out of electronic trading networks."

Carol Steel, e-commerce manager at Barclays Bank, argues that the need for payments in business-to-business e-commerce means that the banks' settlement systems be at the centre of e-commerce networks.

Whereas in the past the cost of using value-added networks limited their use to the largest companies and their larger suppliers, EDI over the Internet would drastically reducing the cost per transaction, allowing its use by small and medium-size companies (SMEs).

Ms Steel represents the UK on the international EDI standards-making body, EDI-Fact, where she says, "there is an international drive to simplify and enable clear communication of messages and enable smaller companies to be involved."

According to Mr Lowrie at IBM, European banks are looking at the opportunities to set up networks which will extend the reach of electronic trading to SMEs, in which they would have a central role in handling payments and providing services such as credit checking, security, data encryption, and so on.

"Banking groups want to enhance their value proposition in the e-commerce environment. Some have as many as 60 to 70 different projects in this area," he says.

A hint of the way in which Internet-based financial services could help small businesses is provided by the factoring company Alex Lawrie, a subsidiary of the Lloyds TSB Group. Factors provide a service for small businesses whereby they advance working capital secured against the value of invoices awaiting payment.

Andrew Hutton, management services director, says that two years ago there was a need to increase charges, as the cost of providing the service outstripped the one per cent customers paid in fees. Instead, Alex Lawrie transferred the service to the Internet, cutting costs by 50 per cent.

Now, when a small company sends out a bill, it sends Alex Lowrie a copy via the Internet, and can get 24-hour access to their account.

"We have halved our costs, and completely cut out paperwork for our customers," says Mr Hutton.

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PREPARING FOR THE EURO • By Geoffrey Nairn

Capital markets prefer a big bang approach

A swift currency switch will avoid the problems of working with mixed systems, but it demands meticulous planning if disasters are to be avoided

The single European currency promises to redraw the competitive map in Europe's financial sector – thus, many IT departments face a long hot summer modifying their systems to ensure they are "euro-compliant" on January 1 1999.

On that day the euro becomes official currency in 11 European states – and businesses can use the euro for trade, if they wish. The financial services industry has belatedly woken up to the technical issues that the euro poses for it and its customers and is thus rushing to adapt its computer systems to handle the new currency. But analysts caution that financial institutions that view the euro as just a technical challenge for their IT departments will risk missing the broader implications of the advent of a single European currency.

"Due to time pressures, most banks are doing the minimum work necessary to survive [the euro]," says Enzo Viola, managing director for the Milan-based consultancy, IDC Italia.

"However, the euro is not just a technical maintenance issue and there does not seem to be a complete appreciation of the complexity of the problem."

The transition to the euro is expected to intensify competition in an already crowded European marketplace for financial services. Analysts predict those best-placed to survive will be the companies that view the changeover to the euro as a chance to re-engineer their business systems and not simply as one more task for their overworked IT department.

The arrival of the euro is providing a substantial boost for the IT services industry in Europe – many financial institutions whose IT departments are preoccupied with the year 2000 and other business challenges have chosen to hand over some of their euro preparation to outside contractors. France's Banque Paribas, for example, has entrusted the task to Anglo-French services company Sema Group and is spending FFr400m (£41m) on the project.

BBV, a big Spanish bank, has budgeted Pta2.6bn (£11m) for the euro problem while the total cost to Spain's banking sector could be Pta180bn. In Italy, IDC estimates the euro has helped boosted IT spending in the banking sector by 13 per cent in the current year against an average growth rate of 9 per cent. In 1997, Italian banks spent L5,200bn ($2.9bn) on IT, or around 19 per cent of the total IT market.

There is still much uncertainty over how fast different sectors will move towards euro-based accounting but the retail financial services sector is clearly expected to set an example by offering euro products and services as soon as practical in 1999.

In the wholesale financial markets, there is no such uncertainty as the changeover has to be made on January 1. "If we do not get the euro 'right', we are out of business on January 1," says Bernd Stiehl, euro director at Cedel, a Luxembourg-based organisation for the cross-border settlement of securities.

The capital markets are preparing to handle transactions in euros from that date. New public debt from eurozone countries will be issued in euros and existing debt will need be redenominated in the new European currency.

Cedel handles more than $60bn of transactions a day and has more than 2,000 customers in 34 countries. It has been planning for the euro since 1996 and has had to revise its early expectations of a dual system that would allow both euro and national currency trading in favour of the more radical "Big Bang" approach that has now been adopted.

"The market is moving full steam ahead towards 'Big Bang,'" says Mr Stiehl. This "sudden death" approach avoids the problems of working with mixed systems but it requires meticulous planning and testing if disasters are to be avoided. According to Mr Stiehl, redenomination of existing securities has caused the biggest headaches for his organisation. "Each and every country has its own rules about redenomination and we still do not know what Italy plans to do," he says.

Cedel's IT staff has had to develop an application, called a "redenomination engine" to handle this issue as well as a "cash converter" application to handle the strict rules for converting between currencies that are "in" and "out" of the eurozone.

The new software was completed in April this year and is now being evaluated with more than 20,000 test cases. "So far, we have had no problems," says Mr Stiehl but he predicts a long hot summer of testing if Cedel is to be fully prepared for the euro's debut in January.

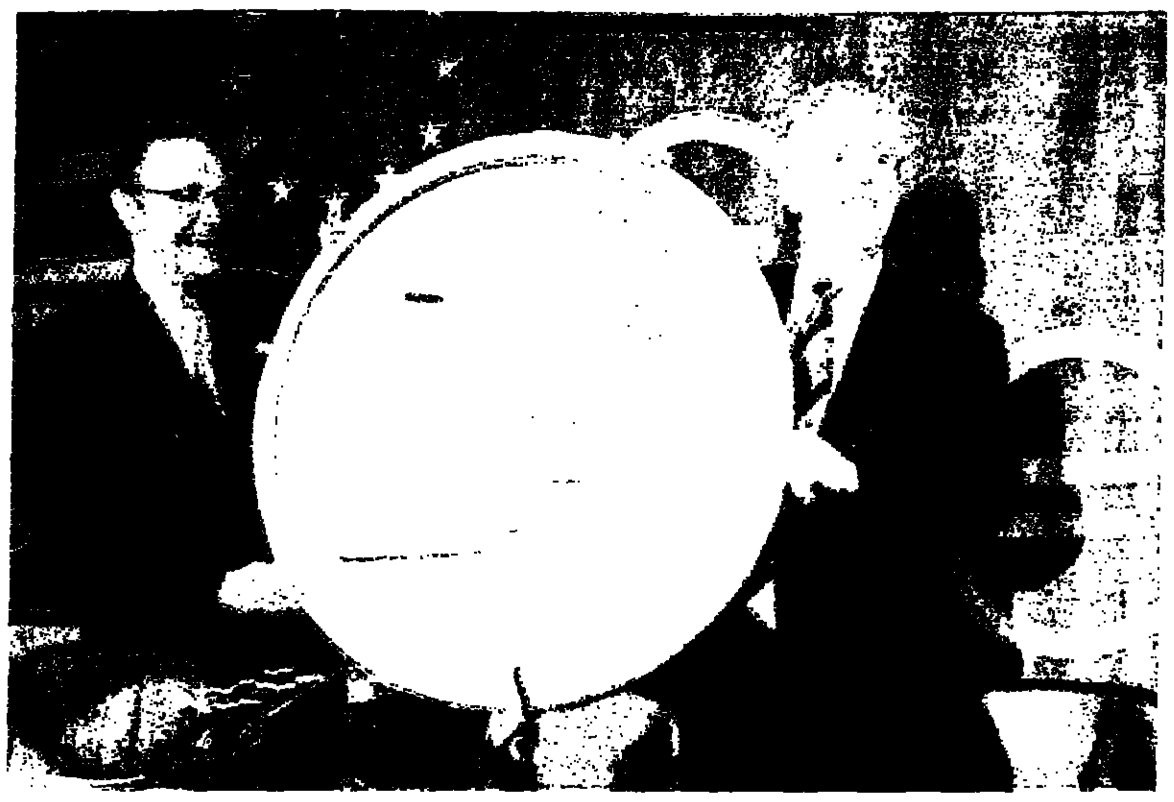
The organisation turned to EDS, the computer services giant, to help it prepare for the euro and the contract is believed to have cost between $10m and $40m. As well as developing two new applications, Cedel had to inspect more than 4m lines of program code on its existing systems and modify 500,000 lines which contain a currency reference.

The challenges for the wholesale financial markets are extreme as participants have little choice but to embrace the euro if they want to trade in euro-denominated securities next year.

"In some ways, it's an easier problem for the capital markets because the euro changes everything for them," says Eric Coursin, manager of consulting with the Sema Group. "For the rest of the financial services companies, their clients are not going to change to the euro overnight."

A phased changeover to the euro at first sight seems easier for information technology managers to implement since individual systems can be adapted to handle the euro on an "as-needed" basis. But one disadvantage of this gradual approach is that interfaces need to be built between systems still using national currencies and those working in euros.

The gradual approach also requires extensive internal co-ordination, so analysts expect to see more businesses quickly abandon a leisurely introduction of euro in favour of their own Big Bang. Despite its higher risk, this has the richer reward: the chance to be among the first to trade in a single currency across the eurozone.



Euro replica: Yves-Thibault de Silguy, left, European commissioner in charge of monetary affairs, and Jacques Santer, European Commission president, hold a large replica of the euro coin at a news conference in Brussels in May this year. AP

Newly-minted euros: watched by the French finance minister, Dominique Strauss-Kahn, the first euro coins were ejected from the minting machine at Pessac, south-western France, in May this year. They will start circulating on January 1, 2002. Businesses in 11 European states can, however, use the euro for trade from January 1, next year AP

■ ONLY 183 DAYS TO EMU

A company check-list

With only 183 days to go until the introduction of Economic and Monetary Union, European businesses have been warned that, in many cases, they still have much work to do.

Colin Stringer of Cap Gemini, the European computer services company with revenues of more than £2bn, says that Emu could be "a winning scenario, but only for those who are prepared." Although sterling will not participate in the first Emu wave starting in January, 1999, he urges even those UK companies whose income, expenditure, assets and liabilities are solely in pounds sterling, to start planning now for transition to Emu.

Mr Stringer suggests a check-list of six key questions for companies for the next 183 days:

1. **Has your company appointed a high-level sponsor for all Emu-related activity?**
2. **Have you formed an Emu steering committee with appropriate weight and power?**
3. **Do you have a full-time Emu champion who has the task of making things happen to plan?**
4. **Has all your management team signed up to the notion that Emu preparations will involve the entire company?**
5. **Do you have an offensive plan to address the opportunities that Emu can bring, as well as a defensive one to identify and guard against threats that will emerge?**
6. **Have you built all these plans into your budgeting cycles?**

For more details, e-mail: michelle.perkins@capgemini.co.uk

EURO SYMBOL • By Geoffrey Nairn

Search for the elusive 'glyph'

There will be many frustrated users of computer keyboards users next January as the euro currency arrives

The hunt will soon be on for the elusive glyph. This is the name for the euro symbol and its absence from current computer keyboards, printers and software could cause an unpleasant surprise when the single European currency becomes legal tender in 1999.

To hard-pressed IT managers struggling to convert accounting software to handle the euro and its intricate rules for triangulation and rounding, the lack of the glyph character may not seem of particular importance. "If this is what a company sees as a biggest issue with the euro, then it has serious problems," warns John Downe, who heads the euro programme for IBM Europe. But experts believe it is risky to neglect these seemingly minor aspects of the euro.

"These may be dismissed as trivial issues, but they cannot be ignored," says Mr Downe. The first place that computer users will look for the euro symbol is on their keyboard. Today, they will have a tough time finding it, however, as current keyboards were designed before the euro was conceived.

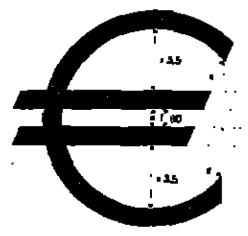
As all the obvious key locations for the glyph are already taken, the European Commission recommends making the glyph accessible from most European keyboards by pressing the "AltGr+E" key combination.

In the UK, however, this combination is already taken – it generates an Irish accented character and so users of "British" keyboards must press "AltGr+4". The solution is far from ideal and until new keyboards are manufactured which incorporate the glyph symbol on the corresponding key, computers users will waste much time searching for the elusive glyph.

Keytronic is one of the first manufacturers to unveil such a keyboard but it is unrealistic to expect large companies to replace their many keyboards just to add this feature. Microsoft recently released a "patch" for its current Windows 95 and Windows NT4 operating systems to support the glyph; its forthcoming Windows 98 and Windows NT 5 operating systems will include euro support as standard.

Meanwhile, the millions of PC users still running older Windows3.11 and MS-Dos operating systems will have to look elsewhere for euro support: Microsoft has decided to not provide an upgrade for these users.

"We had to prioritise our support and so we took as a starting point those using Windows 95 or NT 4," says Mark Taylor, Microsoft director with responsibility for the euro. "The earlier operating systems are now quite marginal areas for us."



Designers are creating the euro symbol in various type fonts

The Microsoft decision creates a window of opportunity for third-party vendors as many businesses, particularly small companies, stubbornly resist Microsoft's attempts to move them on to newer software.

Monotype Typography has created euro characters for Microsoft's core fonts in Windows 98. The company (see web site: www.monotype.com) has created the euro symbols for some of the world's most-used type faces – Gill Sans, Bembo, Arial and Times New Roman. These symbols are available on disk for Mac and PC in PostScript format and in TrueType for the PC, available from Monotype in the UK on telephone +44 (0)800 371242.

IBM has announced a new version of the Dos operating system, called PC Dos 2000, which includes support for the euro and, in addition, a solution to the year 2000 problem – the original Dos cannot handle dates in the next millennium.

This month, IBM plans to publish its schedule for making euro-compatible upgrades available for its other operating systems: OS/390 and OS/400 for mainframes; its AIX version of Unix; and OS/2, which is widely used in the banking sector.

IBM users in Europe will be able to phone a call centre in Ireland and get the latest information on the state of "euro compliance" of the company's many products.

With only six months before the euro becomes legal, many customers might wonder why IBM and other leading IT vendors have only now started to announce solutions to the euro problem. "We looked at this issue back in June 1997 but then it was very difficult to get any intelligent answers," says IBM's Mr Downe.

Another problem caused by the euro arises when PC users attempt to display the glyph on the computer screen or print it on a printer. Hitting the right key combination counts for little if the fonts used by the screen or printer do not include the euro character.

Microsoft is providing a partial solution by adding a glyph character to the three most popular "TrueType" fonts it includes with current and forthcoming Windows versions.

However, that does not help companies whose corporate image requires they use a different font. EuroType, a UK company, claims to offer a more comprehensive euro font solution. Its EuroGlyph package adds the glyph to all TrueType fonts in all versions of Windows – including Windows 3.11 which is not supported by Microsoft's euro initiative. The product costs £60.

Another specialised software company, Eurosymbol, has gone a stage further. Its Eurosymbol product consists of two utilities: one generates the euro symbol, the second searches through a document written using Microsoft World 97 and finds all occurrences of a specified currency.

It will then calculate the value in euros and automatically insert this new value and symbol before, after – or in place of – the original specified currency.

To avoid possible malicious actions, the conversion data is stored remotely on a network server that is not accessible by users. The program calculates using six figure conversion rate multipliers with rounding to the nearest cent, thus meeting European legislation.

Even if computer users manage to fathom out how to display the glyph on the screen, there is no guarantee that it will print. Office printers that use built-in – as opposed to downloadable – fonts are unlikely to have a glyph in their character set because the set was designed before the euro was conceived.

The solution is to force the printer to download the glyph character from the computer, but this is easier said than done. Clearly, IT managers can expect a lot of frustrated users next January when the search for the elusive glyph starts in earnest.

Countdown to the euro: in central Brussels, a six-metre (20ft) high revolving clock indicates to the second how much time there is before the launch of the European single currency. The clock was unveiled in April this year AP

THE MILLENNIUM 'BOMB' • By Rod Newing

Year 2000 date issue: systems are already failing

Companies are warned they must not wait until next year to solve their computer compliance problems

One of the great myths of the year 2000 computer date problem is that computers will fail at midnight on December 31, 1999, which leaves organisations another 547 days to solve the problem.

The "Y2K" issue, as it called, has arisen because computer programmers have traditionally only used two digits for dates, thus the year 2000 will appear as 00 – which computers will "read" as 1900.

The problem will arise during computerised business processes, both visible and "hidden", that traverse the millennium divide. As these processes usually involve a forward time horizon, problems are already happening. It also means that the number of failures will quickly accelerate as the year 2000 enters the time horizon of millions of business processes.

A survey by the Information Technology Association of America, early this year showed that 44 per cent of respondent's organisations had already experienced year 2000-related system failures under normal operating conditions.

Twelve months is a very common cycle for a business process, thus it has long been said that Y2K problems needed to be solved by the end of this year, so that organisations could enter 1999 with compliant systems.

"The best-practice answer for large companies is to complete year 2000 project work by September, 1998," says Robin Guenier, executive director of Taskforce 2000, the UK year 2000 awareness programme. "This leaves just two months to sort out problems so that the systems are ready for the year 1999."

Meanwhile, the UK's latest Audit Commission report confirm's Taskforce 2000's fears that "the public sector's preparation to deal with the year 2000 problem is in disarray."

The report, *A stitch in Time*, finds that the majority of local authorities and National Health Service Trusts are behind schedule in tackling the problem and concludes that it will be impossible to make all systems and equipment year 2000-compliant in time.

Taskforce 2000 claims it confirms a long-held belief that costs public sector are likely to escalate far beyond government estimates, as many trusts and authorities have yet to determine a budget for their year 2000 projects.

For business reasons, most companies and IT suppliers are often loathe to admit to specific examples of year 2000 problems which have already occured. However, examples are provided by Peter de Jager, one of the world's leading experts on the year 2000 problem and by members who subscribe to his mailing list at the Year 2000 Resource Center (http://www.year 2000.com).

Although the example listed below are reported anonymously, we have the names of the individuals and organisations concerned:

□ Computers at a US insurance company began billing newborn babies for insurance cover in 1977. The parents had paid the child's policy in full for the first 23 years – and at the age of 23, the young person could opt to cash out the policy or convert it. Inevitably, the computers calculated that 77 plus 23 = "00" – so the baby was getting offers to convert the policy.

Late in 1992, a US State had to rewrite the portion of a driver license system that evaluated driving violations, using a sliding seven-year time frame involving the current date, plus or minus seven years. The system would have failed with the first violation conviction in 1993.

□ A supply of corned beef was rejected by the computer system of one of the UK's largest retailers in 1995 because the "best-before" date showed a year of "00", intended to mean 2000, but interpreted by their computer as 1900.

□ An engineering company in 1995 could not use its general ledger budgeting feature to plan the financing for the fifth year of its five-year project because 95 plus 5 = "00".

□ Cars were sold in 1996 with a four or five-year corrosion warranty. The first claims were rejected because computers reported that the warranty cover had "expired 95 years ago."

□ A US State licensing agency issues certificates for 30-month periods. In July 1996, the first month that licences would be issued to expire past 1999, produced licences expiring in 2002, not 2000. The following month, the expiry dates were 2008.

□ In the summer of 1996 one of the staff at a community college in Oregon, US, notified the personnel department that they intended to retire on a specific date in the year 2000. On the next trial payroll run, that person's pay was rejected with the error message stating that that person had already retired.

□ An elevator had been causing problems by "parking" all but one lift, yet no faults could be found. The organisation's year 2000 team discovered that the elevator display console read April 14, 1996, not 1998. This was a Sunday and the elevator is intended to only run one carriage and "park" the rest on that day.

□ The advertising and associated air-time scheduling application of a large US television network had to be rewritten. It would have failed last month because its long range analysis looked 18 months ahead.

□ At a US college it was discovered that the general ledger, accounts payable and accounts receivable systems would fail on July 1, 1999, the first day of the fiscal year that ends in 2000. The budgeting system for that year would fail earlier, as the process starts in June 1998. There will also be problems in mid-July 1999 when it rolls forward from the academic year, 1999-2000.

□ A banker working on longer-term projections did not notice that the screen date – 1/1/21 – was interpreted by his spreadsheet package to mean 1921, giving the wrong results.

□ During tests on a new client/server system, engineers found that they were using compliant date fields stored in the database, but were stripping the century off the application code.

□ An increasing number of tour operators – whose computer systems may not be year 2000-compliant – are concerned that as soon as they launch 1999 holiday brochures this year, they will have to deal with year 2000 booking dates.

Software issues: accounting systems are increasingly being used with separate financial management software, but the euro and Y2K issues are holding back Web integration – see report, page 13.

PREPARING FOR EMU • By Mark Vernon

Worries over financial software

Smaller companies 'will be under tremendous pressure and at very great risk', analyst warns

European Monetary Union is "a subject very poorly understood ... it will be a very risky project." So warned John Major, Britain's former prime minister speaking at an executive Emu summit in Miami, Florida, earlier this year.

But although Mr Major had the political and economic dangers in the forefront of his mind, by the end of the event it was perhaps the implications for computer systems that were of more concern to his treasury audience. Threats of a more tangible and predictable nature had been outlined in depth by then.

The first came from Dennis Keeling of the UK's Business and Accounting Software Developers' Association (Basda).

Discussing the white paper, which he authored, *The European Union's Economic and Monetary Union*, he predicted that 90 per cent of accounting software providers will be exposing their customers to "unnecessary risk" as they migrate to the single currency.

Senior Gartner Group euro specialist Joyce Boland, added to the warning that many small companies are not going to escape unscathed in the scramble to become compliant. "They will be under tremendous pressure and at very great risk," she said.

Mr Keeling's concern issues from the methodologies software that developers have adopted to meet the requirements of Emu.

Broadly speaking, there are three approaches:

□ The minority big bang approach, that uses a "one-stop" conversion utility.

□ A parallel approach, similar to that used in many new implementations when one system is run down as the other winds up.

□ And a phased approach, the preferable – though more demanding strategy – but one which, according to Mr Keeling, allows for maximum flexibility throughout the risky transition period.

The concept of the phased approach is that the system is able to handle the local denominated currency and the euro for all transitions.

Rather than have the euro currency and the local currency on the same transaction line, a typical strategy incorporates multi-books that allow ledgers to be held simultaneously and interchangeably in all currencies required.

The net result is a solution with which companies can switch from their local currency to the euro, and vice versa, at any point during and after the transition period.

Mr Keeling argued that although a phased approach was the only safe way to

Turn to facing page

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BANKING SYSTEMS • By Philip Manchester

Internet opens door to endless innovation

Unlike the limitations of a simple cash machine in a bank wall, the Web has an explosive growth potential for offering new business models of financial services

Almost everyone in financial services wants to be a bank nowadays – at least, in the UK. Gone is the time when a bank was a large, imposing building in the high street.

In the 1990s, to a growing number of people, a bank is an organisation with a computer at the end of a telephone line. The organisation might not be a traditional bank, but a supermarket group – for example, Sainsbury; or a chain store, such as Marks and Spencer. Or it might be a "lifestyle" brand, such as Richard Branson's Virgin group. It could even be a traditional bank in a new form – such as Midland's First Direct telephone bank.

While "globalisation" of markets and deregulation have contributed, information technology – and, especially, the growth of the Internet – are the main causes of this change.

IT has, of course, long been a force for change in the financial sector and large banks have pioneered many new concepts in applying technology.

From the front-line "service" battle for customers among the retail banks and the rise of the automated teller machine (ATM) to the high-speed networks used for online trading, the combination of computers and communications has stimulated competition, reduced costs and improved service.

Now IT is causing an even more fundamental change which threatens established institutions and promises to alter the structure of banking. The rapid advance of technology favours new entrants to the market and increased competitiveness is stimulating merger and acquisition activity.

As a result, banks are being forced to rely on IT not only for their operational systems – but also for other activities. These range from decision support and marketing to service delivery and "customer-care".

More importantly, they must build and deploy their new IT applications quickly and effectively to ensure they keep their position in the market: "Banks are having to deploy technology quickly to cope with the changes they face. Increased competition from new entrants, the demand for online services and the current round of merger mania are some examples," says Mark Bardoe, marketing manager at retail banking software specialist, Parallax.

The banks are looking for technology which can open the door to their product base to their customers. "There is such a tremendous variety of areas they must cover and it brings in every level of technology from the mainframe back-end databases to the desktop PC browser for the Internet," adds Mr Bardoe.

The main focus of all current applications of IT to banking is, of course, the customer. IT has consistently changed the relationship between banks and their customers over the last 30 years.

The current change, however, is the most profound. "With the ATM, banks provided a large number of users with access to their back-end operational systems – but in a very limited way," says Alfred Spector, general manager of IBM's worldwide transaction business.

"But now, the Internet has removed the limitations and there is an explosive growth in the diversity of business models. The low cost of processing and the enormous flexibility in customising transactions opens up lots of new opportunities for banks – and others – to innovate."

This does not mean that traditional back-end processing are about to disappear; only that they will need to adapt to changes in the market. "Companies cannot afford to re-write their whole business to cope with the Internet – there around 20 billion transactions a day running on existing systems. But they need to change and they have to integrate their existing applications and processes with innovation to reach out to the customer," says Mr Spector.

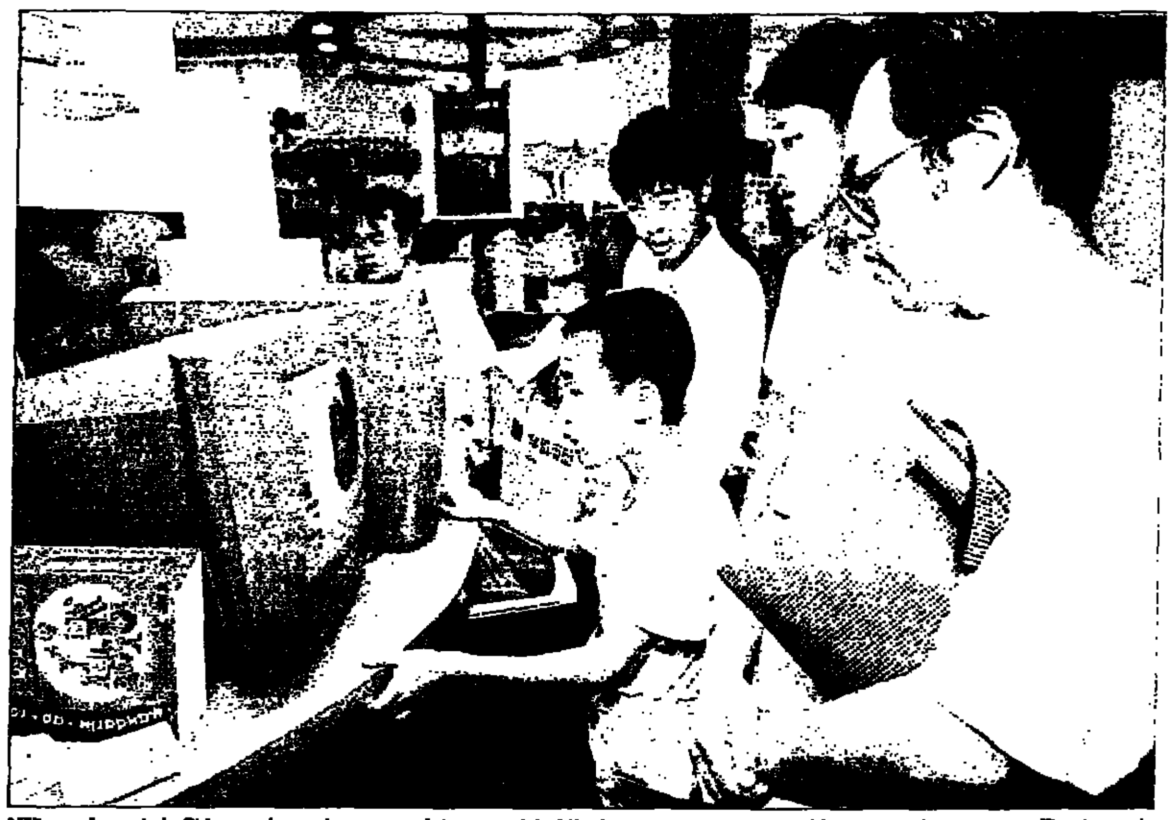
Banking has become all about customer information – and understanding the relationship between the bank and the customer. This is a big problem for many reasons – not least the current round of mergers and acquisitions where they can to combine different customer bases, says Tony Harrington, head of marketing at Unisys's financial and retail services business.

The central role of IT in banking applications has also changed the relationship between banks and their suppliers – leading to innovation in how IT is priced. The technology is moving so quickly that it is becoming impossible for businesses to keep up – so we are seeing a rise in partnerships with IT suppliers.

"This trend is changing the way we charge for our services and software. We are moving away from traditional licensing to performance-based pricing," says Mr Harrington.

Banking software: how forecasting systems help banks maximise returns and offer competitive prices – page 13.

Online banking forecasts: new report, page 14.



Millions of people in China are becoming aware of the potential of the Internet – and a new world of electronic commerce. The demand for computers is strong – pictured above is a young boy in Beijing, demonstrating his skills at a display in the 'Computer Lovers' City' AP

Internet enthusiast: Louis Gerstner, chairman and chief executive of IBM, says that electronic commerce is a key focus for the company and its customers in financial services AP

SOFTWARE FOR EMU

Suppliers 'have under-estimated resources need'

From facing page

enter the troubled waters of the single currency's transition period, most software suppliers simply do not have the resources to fulfil the extra development required to support it.

In reality, a parallel approach will be the option sold, in spite of protestations to the contrary, leaving end-users overly exposed to the potential problems that the European project inevitably presents.

Martin Mackay, industry strategy director, financial services, with PeopleSoft, represents one of the few companies that show up well under Mr Keeling's analysis. "Software suppliers have dramatically under-estimated the resources required to enable enterprise application packages for Emu, with the result that many are offering inflexible solutions," he said.

Organisations need to look very carefully at the implications of the solution the vendor is purporting to offer, as adopting the single currency is a risky business, even for the biggest euro-enthusiast, he added.

"As much flexibility as possible in the IT which supports this business change is vital to minimise risk, let alone put companies in a position to make the most of the advantages Emu suggests," says Mr Mackay.

Gartner Group's Ms Boland added to the worries by suggesting that smaller companies might not survive unscathed the transition to the euro – again, "because of the lack of preparedness from software vendors."

Developers simply do not have the people to fix the problem. Smaller companies will inevitably loose out because larger companies, that carry more clout with their suppliers, will absorb the scarce resources available.

Ms Boland also drew the audience's attention to another issue, the problem that Emu will pose for PC compliance. Corporate PCs typically have 10 "hidden"

> 'Developers simply do not have enough people to fix the problem'

applications installed on them, such as customised tools embedded in spreadsheets developed by individuals to support their business decisions.

"Educate, educate, educate," was Ms Boland's plea, since the corporation cannot otherwise hope to reach these users.

The problem of knowing whether companies are compliant was also raised by Ms Boland. As with Basda, the Gartner Group will be issuing measures for assessing compliance in the near future.

Accounting software: see page 13

INFORMATION SERVICES • By Philip Manchester

Financial news – by mobile phone

Telecom companies are experimenting with digital mobile systems that link to the Internet, downloading e-mail and customised information services

It used to be said that money made the world go round. Nowadays it is *information* – and nowhere is this more true than in the financial sector.

In the financial markets timely information about price movements in commodities, stocks and shares, currencies, derivatives and financial futures can mean the difference between a fortune or bankruptcy.

Organisations such as Reuters, Bloomberg and Dow Jones have been able to charge a premium for this sort of information.

But the spread of networking and low-cost computer power – especially through the Internet – poses a threat to these established institutions.

Rival information services are able to offer lower prices, innovative delivery methods and new techniques for analysing the huge volume of financial data now available.

Companies such as Virtual Telecom (VT) are, for example, challenging established financial information sources and offering similar services at much lower prices. "We are leveraging the Internet to provide stock quotes and electronic brokerage to the European investment community," says Neil Gibbons, chief executive of VT. Internet technology has enabled VT to offer a service which, it claims, is comparable to Reuters for between 12.5 per cent and 20 per cent of price.

It is not only market information that is important, however. Many financial organisations are under growing pressure to combine outside information services or "feeds" with competitive information about their rivals and internally-derived information about customers.

"The big financial institutions face a number of challenges – new entrants to their markets, globalisation along with new technologies such as the Internet. But they also have huge assets in their databases. The problem is that they can't get at the data. There is gap between what they need and what IT can provide," says Steve Rogers of Oracle's financial services group.

This is particularly true with customer information – which is increasingly how large financial institutions differentiate and compete. "A customer is more precious than ever – it can cost a fortune to get a customer and it so easy to lose them," Mr Rogers adds. "We think that IT can bridge the gap and deliver information drawn from multiples sources – outside feeds, internal databases and legacy systems."

Financial professionals are not the only people wanting global information: housewives, above, at a bank in Hong Kong watch as the Hang Seng index drops sharply, following a fall on Wall Street AP

Delivery methods are also changing. The days when financial information meant half a dozen screens on the desktop have been replaced with a single networked workstation – and the possibility of delivering through other media.

Mr Gibbons of VT sees internal company intranets – connected to information sources via the Internet – as one key area for development. "The Internet costs less as a delivery medium. It also gives a level of mobility that you don't get with traditional delivery methods."

Data warehousing specialist Micro Strategy is taking the concept of mobile delivery of financial data even further and offering a range of delivery methods: "Our approach is to give users a choice – either the standard desktop by e-mail or fax or a digital mobile telephone. Users can set up their own filters to customise the content and choose how they want it delivered," explains Micro Strategy's UK managing director Stewart Holness.

The beauty of this approach is that there is little in the way of infrastructure costs and users do not need a pile of complicated desktop tools. "Users can go via a call centre or set up their preferences on Web site," he adds.

This approach to delivery of financial information is based on what might be called a "publish and subscribe" model. The difference between this and traditional information services is that subscribers can refine the level of information that they receive.

An anxious investor in Seoul, Korea, watches the dealing screen of the Tokyo stock market. Financial markets have fallen as the yen hit an eight-year low against the dollar AP

Unisys, the IT services company, has been working with financial organisations to find ways to take the pain out of information overload. It is using software "agents" – small software programs that can sift through information on behalf of a users – to give users a better service.

"Our talks with financial institutions revealed a need for some form of information management. They gather information from all over the place – Reuters, Bloomberg and so on – and wanted a way to capture it and bring it all together," explains Philip Jones, a consultant with Unisys's publishing solutions group.

Information should be individualised because there is so much of it, he adds. "We can use software agents to do this. We can store a user profile which specifies the subjects they are interested in and then pushes out their information when they log on."

Unisys is also following the trend for innovative delivery methods. "Users can, of course, come in from the World Wide Web – or through an internal Internet. But it could also be delivered by fax and e-mail," says Mr Jones. "We are also planning to integrate voicemail as yet another option."

The quality of text-to-voice synthesisers is now good enough to think in terms of delivery by audio over the telephone – a little like a speaking clock.

More likely, is the increased use of either laptop or palm-top computers – connected via a digital mobile telephone. Telecom companies such as Nortel and Nokia, for example, are already experimenting with mobile devices that can plug into the Internet and download e-mail or access information services.

SUPPLIER PROFILE: CISCO SYSTEMS • By Geoffrey Wheelwright

Strategy to gain 'next generation' products

Cisco, the networking equipment supplier, has made 21 acquisitions in three years – and may add up to 15 more this year

John Chambers is having a winning season. As president, chief executive and "head coach" of Cisco Systems – which makes the hardware "plumbing" for Internet and intranet networks – he is ready to compete. And so far, his team's statistics this year are looking great.

Net sales for Cisco's fiscal third quarter (which ended April 25, 1998) were $2,184m – compared with $1,646m for the same period last year – giving it an increase of 33 per cent. Part of this increase, however, was due to the fact that Cisco's "players' sports bench" just keeps getting longer as the company makes one strategic acquisition after another in an effort to stay one step ahead of the competition.

The company's actions in the first few months of 1998 alone illustrate just how fast-paced it is when acquiring key "players" in the high speed data communications market. In February, for example, not only did Chambers complete the acquisition of LightSpeed International of Sterling, Virginia – a company that creates voice signalling translation technology – but he also announced a definitive agreement to acquire privately-held WheelGroup Corporation of San Antonio, Texas, which specialises in network security software products.

On March 11, Mr Chambers announced a definitive agreement to acquire NetSpeed of Austin, Texas – a key supplier in Digital Subscriber Line (DSL) technology in North America – as well as Precept Software of Palo Alto, California. Precept is an innovative multimedia networking software company.

It's not hard to see the synergy between Cisco and the various companies it is acquiring, but the pace of these deals would leave many others lost for words. But not John Chambers. In a recent interview, he paused long enough from this "shopping spree" to explain why he is so busy acquiring what he considers key niche market companies – and how they fit into the "team" he has been building since taking over the chief executive role at Cisco, three years ago.

"The first key is to realise what you are acquiring," he says. "Lots of people forget what they are really acquiring. So, when large financial institutions combine in different geographies, they are often looking for access to market areas, customer-sets and market share. Our target is next generation products that the company can use to lead the market – and the people who can make that happen."

Acquisition is not the first route into a market for Cisco, but it is clearly a key route for making an impact on many new, emerging and complementary products. "If you are not one of the first players to market – our rule of thumb is one of the first five – you will never become number one or two," he suggests.

"That was one of IBM's weaknesses – and other large technology companies weaknesses – taking a product to market and never becoming number one or two in that arena. So, if we weren't in the first five, we 'partner' with one of the first five – or we acquire. Simple as it sounds, it's just a very disciplined approach to the market."

Chambers: teamwork is vital, he says AP

It would appear that Mr Chambers knows whereof he speaks – particularly when he talks about IBM. He began his career by spending six years with IBM, after which he had eight years at Wang Laboratories. So when he landed at Cisco, his thoughts on acquisitions seem to have been well formed.

The company has made 21 acquisitions in three years "and probably will do another 10 to 15 this year," he predicts, reiterating that Cisco would rather develop new products in-house where possible. "But 65 per cent of our products are internally developed and the other 35 per cent are from partnerships and acquisitions. That speaks to a realisation by us that no-one can do it all themselves."

There are, according to Mr Chambers, five vital elements for him to look at in any acquisition. Both companies should have a common vision, he says, and there should be a short-term and long-term "wins" for both sides. The "chemistry and cultures" of the two companies should match and, if it is a large acquisition, there should be close geographic proximity.

"You have to remember you are acquiring *people*," he says. "If you want to know how an acquisition really wins, you have to ask how many of the key engineers, managers and leaders are still there two years later.

"You would be shocked – in many cases, 40 to 50 per cent are gone. When you spend $500,000 to $700,000 per person to acquire a company – that is, the 'per employee' cost of the acquisition – that's a disaster for your shareholders. Our average attrition six per cent."

When Andy Grove, the former Intel chief executive, came to speak to Cisco's senior management team about Intel's growth, he asked how many were there at Cisco as a result of partnership or acquisition – "and more than 40 per cent of senior management raised their hands."

In any conversation with John Chambers, it would appear the other unavoidable topic is team work – something that he says he believes in so strongly that it permeates everything he does. Even when he plays tennis, it's only doubles.

PC-BASED HOME BANKING • By Mark Vernon

Web offers a ferment of experimentation

In a bid to attract customers, banks are providing a wide range of web site innovations

Banca di Roma will tell you about local cultural events. Credit Mutuel provides its very own "Best of the Web". Nationwide connects you straight to the football league. And this is to say nothing of the actual business of banking over the Internet. All over Europe, banks are in a veritable ferment of experimentation with their Web and PC-based offerings.

The name of the game is to attract users to the service. The rules of the game are, apparently, almost entirely up for grabs. The question is: what is being learnt about the new channel amidst all these pilots and trials – and are their any indications as to what the Internet banking service of the future will look like?

What is not being discussed here is a simple Net presence. On the other hand, the industry is also far from the state described by the Web visionaries, where personalised sites – operating in a paradigm of one-to-one service – pop up fresh information of direct relevance every time the user logs on.

Many banks are barely coping with the early features of interactivity, stuck on feedback forms and e-mail addresses.

A number are now providing what might be called home banking, utilising personal finance software, notably Microsoft Money and Intuit's Quicken, to perform transactions such as fund transfer and bill payment via a direct dial connection. But there are relatively few that have so far established a genuine Internet banking service, allowing access to accounts from a browser over the Internet, without the need for locally installed proprietary software.

A useful barometer of change is provided by Unisys on the Internet Banking Web site (*www.internet-banking.com*). It lists 30 European institutions that fall into the full category of Internet banks. Of those, 17 are German and nine are French. Britain can boast four, placing it third on the list.

German and French banks "have recently been the most active in pushing up the barometer up, with support also provided by Italian and Belgium developments, too," says Steve Parker, European programme director for Net Solutions at Unisys.

Austria's Bawag Bank, colloquially known as "the worker's bank", can claim to be an originator in the Internet banking space, not only as the first organisation to use a Microsoft Money client, but since April of this year, also as the first in Europe to offer a Web shopping mall payment service that does not require a credit card, but links transactions straight to the user's bank account.

This trial fits into a philosophy of experimentation, in the quest for real knowledge of what clients might want out of an Internet banking service. Bawag has learnt, for example, that customers are typically on line for 2¼ minutes, less than they originally expected, which is good in as much as fewer servers are required to support the service, but bad in that it takes extra effort to attract customers to all its features.

"We also found that users of the Microsoft Money interface came online mostly in the evening, whereas those accessing the bank through a browser did so during the day from the office," says Werner Schoenfeldinger, a consultant at Bawag.

> 'The online customer should feel in control, but the machine should do most of the work'

Just who is using the site is a mystery as yet – the bank needs to upgrade its servers before it can analyse that information, though users are expected to consist mostly of small businesses and technology-savvy customers.

"We've also noticed that when the service goes down, the hotline lights up," adds Mr Schoenfeldinger.

Trust and security are ever-present issues for banks developing these kind of services. Even a rumour of a breach leads to a welter of unwelcome publicity. The irony is that in providing the psychological confidence that the Internet is impregnable, banks are developing solutions that – in reality – lead to technological overkill.

Among innovations, MeritaNordbanken, in Finland, uses smartcards that are swiped through a reader supplied when a customer signs up to its Internet banking service. This feeds private RSA keys into the system that can never be copied, removed or tampered with, claims the company.

The solution seems popular, too. In less than three months since its introduction, 13,000 people have gone online in this way. The smartcard reader is simply plugged into the computer, which offers the user the flexibility of being able to do their banking from any PC, wherever they happen to find one.

Arguably the most innovative experiment in Internet banking to date comes from Britain, with the recent launch of the Co-operative Bank's Web service. The Java-based interface looks not unlike a handheld computer game, suggesting that the bank is making a serious attempt to address the inhibitions of those who find the "techy" environment of the Web intimidating.

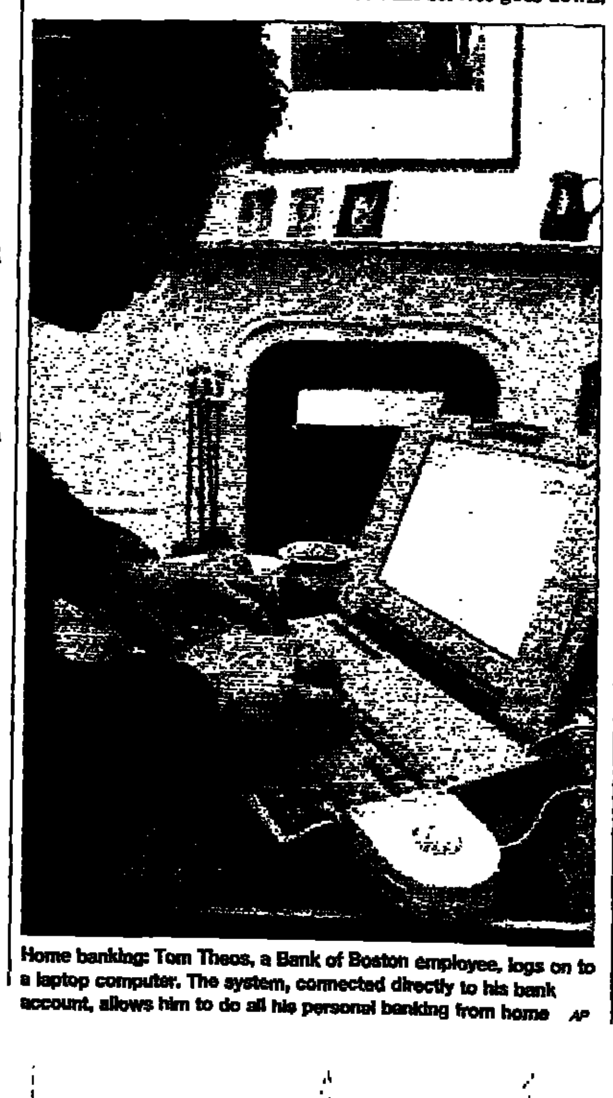
Nick Spooner is part of the creative team at Entranet which developed this Co-operative Bank's web site, and he provides a check list of aims in support of its radical design:

"Electronic commerce should do two things: lower cost and accelerate trade," he says.

"The customer should feel in control, but the machine should do most of the work. The slightest amount of discomfort in the design leads to prejudice – and that leads to distrust. If it is easy to use, it is easy to buy," he adds.

This amounts to a powerful advocacy of the Co-operative Bank's relatively unconventional approach – and as strong a list of rules for the Internet banking game as any.

Time will tell whether clients are prepared to buy its novelty.



Home banking: Tom Theos, a Bank of Boston employee, logs on to a laptop computer. The system, connected directly to his bank account, allows him to do all his personal banking from home AP

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THE SECURITIES INDUSTRY • By Geoffrey Nairn

Braced for big upheavals

Consolidation of the world's stock exchanges has gained new impetus from the single European currency and the creation of the 'eurozone'

Computer technology is often held to have revolutionised the securities industry but the changes that have taken place so far are just a foretaste of a new era of unprecedented innovation that will fundamentally transform the industry in the next few years.

The securities industry has long had a love-hate relationship with technology, most recently in the controversy over electronic trading systems. The growth of such systems – in which orders are matched by a computer, rather than passed through market makers – was meant to herald a big shake-up in the industry by reducing spreads and diminishing the power of market makers.

The latter have fought back, claiming order matching technology is not yet ready to replace traditional trading. They cite, for example, the Chicago Mercantile Exchange's Globex electronic trading system, which failed one afternoon in May, forcing the exchange to go back to "open outcry" trading for the rest of the day.

More importantly, electronic systems have often failed to deliver the expected pricing and liquidity benefits. The market makers have thus so far largely managed to retain their old ways and their power, and while their names may have changed following mergers and acquisitions, the rules of the game largely have not.

Today, however, the industry is bracing itself to take the full impact of technological change and for the first time is unsure who will be left standing. There are two main forces shaping the industry today. The first is the trend to consolidation among the world's exchanges that has gained new impetus from the single European currency and the creation of the "eurozone" – a powerful new trading block that challenges the traditional supremacy of the dollar.

The euro could dramatically change trading patterns and leave many smaller European exchanges fighting for crumbs as domestic instruments lose their importance.

"The launch of the euro will broaden the definition of 'domestic stocks,'" says Ab Banerjee, chief executive of Raw Communications, a City-based technology startup that has launched a video-on-demand system aimed at financial institutions. His business plan is based on the premise that the arrival of the euro will require institutions to research and trade a larger base of pan-European stocks.

Companies whose annual meetings were once sleepy local affairs may soon face intense interest from international investors when their shares trade in euros. "A more time-efficient way of communicating with institutions internationally is needed," says Mr Banerjee.

Raw's service will allow fund managers to receive live footage of company results presentations direct on their desktop PC. The system uses standard Internet protocols and video compression to distribute high-quality video over satellite and fibre optic links, thus sparing fund managers the need to travel to the meeting.

Pause for reflection: a trader working on the floor of the New York stock exchange watches as the Dow Jones industrial average shows signs of recovery AP

The second potent force of change in the industry is the Internet. A few years ago, the Internet could be dismissed as a technological curiosity by the securities industry. Today, it threatens to undermine the revenue models on which the industry depends.

In the US, for example, the Internet is levelling the playing field in retail broking by providing small investors with services previously reserved for deep-pocketed corporate clients.

Intense competition for the legions of armchair investors who trade over the web has obliged Internet brokerages to bolster the basic trading facilities they once offered with real-time price feeds and high-quality investment research to attract customers.

A growing range of company news and investment tools is available free from specialist financial information web sites, such as the TechInvestor site of US publisher CMP Media. This recently added a research section with access to stock quotes, charts, company news and profiles and investment reports.

"The brokers are getting squeezed and have to start thinking where they fit in the value chain," says Jerry Norton, head of investment banking at UK-based consultancy, Logica.

The Internet is also revolutionising the supply of financial information to institutional investors – the bedrock business of vendors such as Reuters or Bloomberg.

A new UK company, Virtual Telecom, is out to challenge these giants using Internet technology to deliver real-time financial information at prices it claims are 20 per cent or less of those charged by its competitors. But perhaps the biggest technology revolution is poised to take place unseen inside the exchanges, many of whose computer systems were designed in the 1980s and have been not kept up with technological and market changes.

Reaction to Asian woes: a stock trader yells during trading on the Paris Bourse as stocks are affected by financial problems in East Asia AP

Member-companies have had to develop their own systems to perform more advanced functions "and the exchanges have been left behind," says David Ashburner, director of exchange systems with Tibco, a US supplier of digital trading systems that is owned by Reuters.

Notwithstanding the patchy track record of electronic trading systems, most experts agree exchanges of the future will gravitate toward this technology.

"Order-matching systems have had mixed reviews but there is a definite trend towards them," says Mr Norton of Logica, which upgraded the Hong Kong Stock Exchange to order matching in 1995.

"Early systems were relatively straightforward but we are starting to see much more complicated matching algorithms," he says.

Nasdaq, for example, is considering shifting away from using broker-dealers to buy and sell stock to an automated order matching system designed around a trading engine from US vendor OptiMark. Nasdaq hopes the change will improve liquidity and deliver better prices to both institutional and small investors. OptiMark will use a supercomputer to carry out "multidimensional" matching that goes way beyond simple "limit matching" systems.

Nasdaq hopes that if traders are more willing to enter orders at various levels of price and size, and can do so anonymously, more orders will be placed in the market, thus improving prices and liquidity.

OptiMark plans to start operating its revolutionary system from this summer, starting first with the Pacific Stock Exchange and later with the much larger Nasdaq exchange.

FUND MANAGEMENT • By Emiko Terazono

Ways to cope with a deluge of research

IT systems can sift through financial information to make life easier for research teams and their clients

Inundated by meetings, appointments and having to wade through financial data and reports, the modern day fund manager is facing increasing pressure to manage time more efficiently.

In the past, portfolio managers sat at their desks analysing ideas presented by brokers. However, the shift of household funds into equities has increased the role and the power of institutional investors, who, in turn are having to become more pro-active.

An increasing number of new information and research sorting products are now being offered to alleviate the increasing time pressures. "Anything that helps screen information will be very welcome," says one fund manager.

Video-on-demand of corporate presentations is one new development which may help portfolio managers, who currently feel they may be missing out on vital information. RAW Communications, will launch a new video-on-demand later this month in Europe and the US, with the backing of £600,000 from 3i, the venture capitalists.

The product will allow fund managers to call up live or historical footage of corporate presentations on their desktop computers at any time they wish. The quality of the picture has been a great impediment hampering the use of video-on-demand in the past, but Ab Banerjee, chief executive of RAW, says that cable and satellite links with a high bandwidth have helped overcome this problem. "It requires huge commitments from technology divisions of the institutions at a time when the year 2000 and euro are also a huge issue," he says.

RAW already has an impressive client list, which includes Mercury Asset Management, Schroders, Prudential and Morgan Grenfell. The fund managers at institutions will be urging companies in which they have invested to co-operate with RAW in allowing cameras into their meetings. Two leading brokers have also placed cameras into their buildings for their morning meetings to be covered.

Video is important for fund managers who place greater importance on qualitative analysis and want to watch corporate executives when making their investment decisions. The expansion of European equity investments following the introduction of the euro is also expected to help the market for video-on-demand as fund managers and companies face logistical constraints on time.

By the end of the year, RAW anticipates a total of 100 companies to be signed up to have their results presentations and announcements of the affiliates filmed.

Meanwhile, with the amount of research material sent to portfolio managers ballooning over the past few years, information technology products which will sift through material are also sought after.

With an increasing number of investment banks and brokers realising the importance of analyst reports as an advertising tool for both broking and primary businesses, fund managers and finance directors face a deluge of brokerage research.

Services for 4,500 clients

Thomson Financial, the US financial information services group, is offering one solution. Its First Call division, which already provides Research Direct, an equity research service based on material supplied by more than 200 brokers around the world to 4,500 clients, has joined forces with three former directors of Union Bank of Switzerland to create a research production and distribution system that could make life easier for both research departments at brokers and their clients.

Although some brokers are developing their own research production systems, First Call's product, which will be launched in July, will be the first independent system offered to the industry.

First Call conducted a survey with 100 fund managers that indicated they wanted a product which would answer the following needs:

☐ Define the research interests to all brokers.

☐ Define the medium – mail, e-mail, or facsimile – over which they receive research.

☐ Provide an alert to new research in which they have an interest.

☐ Send through information such as analyst spread sheet models.

Simon Aspien-Taylor, one of the three former directors from UBS, says little of the brokers' research material is produced from the fund manager's perspective. There has been an under-investment in research technology relative to trading, but increased globalisation and competition is expected to trigger a shift among brokers and investment houses, he says.

The former UBS team, which has helped build research production systems at Smith New Court and Merrill Lynch as well as at UBS, took the idea of creating a system, which could offer a standard for the industry, to several information vendors such as Reuters and Bloomberg.

All of them, save Thomson, were reluctant to participate, as they believed the concept was too difficult to tackle. A lot of the vendors only seemed to be concerned about getting terminals on desks, he says.

The new product, which will use web technology, builds on First Call's Research Direct. The main focus, says Mr Aspien-Taylor, will be to improve the targeting of research. This will help eliminate information overload which the brokers' clients face at present and will cut costs at the brokers. Production and distribution costs at a large investment bank averages about £2m-£5m a year, of which 35 per cent is believed to be wasted.

What is more, by standardising the way research material is categorised, the material will be easier to use, while also allowing access to analysts' basic financial models such as their spreadsheets. It also aims to improve internal access of client and research information within the brokerage. Since upgrades will be part of the system, it will level the playing field for smaller and middle-sized brokers which do not have the capital to renew their research production systems every time a new product comes out.

Merrill Lynch, meanwhile has introduced a "roadshow" presentation which is available at fund managers' fingertips: it recently organised a rights repurchase for Real, the Spanish football club, using the Internet. This presentation was the first of its kind to institutional investors in Europe.

Merrill believes the Internet could change the economics of investment roadshows, which are often limited by time and expense to a few venues such as London, Frankfurt, Zurich and Paris, bypassing smaller financial centres. This takes away the disadvantage for these investors and gives investors full access to this information, says Merrill.

SHARE TRADING: CASE STUDY • By John Kavanagh

A blockbuster success

A new UK share dealing company – Halifax Share Dealing – achieved a remarkable feat in handling 2m customers in its first week

Halifax Share Dealing had a baptism of fire when it opened for business on June 2 last year: it handled two million customers in its first week, an achievement only made possible by a unique combination of IT systems.

The UK company's achievement has won it the 1998 Information Systems Management Award, organised by the British Computer Society in association with the *Financial Times*, and sponsored by Blue Circle Industries, Deloitte & Touch, KPMG Impact, Unisys and Woolwich, the financial services group; and in association with Elite.

Halifax Share Dealing was formed by the then Halifax Building Society as it prepared for a share flotation to convert from a savings, banking and home loans organisation, in which its account holders were voting members, to a quoted financial services company.

There were fears that the world's biggest ever extension of share ownership would bring down normal trading in the London market, which normally handles only around 40,000 trades a day. More than 7.5m Halifax members became shareholders, many for the first time in their lives, and the building society expected large numbers to sell immediately to take their bonus as cash instead. This risked flooding brokers with calls and overwhelming normal trading.

The 2m sellers exceeded expectations, but the new share dealing company not only took everything thrown at it but has also gone on to become a profitable business in its own right.

"We considered using existing brokers but the scale of the flotation was just too big," says Sue Concannon, managing director of Halifax Share Dealing, who was recruited from the UK subsidiary of broker Charles Schwab & Co. "It would have meant us investing in another firm's infrastructure to enable it to cope. In addition, building our own operation from scratch meant we could go for the latest technologies and exploit automation to the full, for efficiency. When you look at what we do with 150 staff, compared with other organisations, it's clear that this policy has proved itself."

Halifax started the project with the intention of making the share dealing operation into a commercial business: it was profitable within six months and will start trading in other companies' shares in the autumn.

"It was a huge job to get the company going, so we felt that as we had the cost and the work, we would turn it into a long-term profit opportunity," says Mrs Concannon.

The cost has been £6m to get 150 PC users online to a system running on a Hewlett-Packard Unix computer, with another for back-up and a third for external communications.

The main communications from the company's Leeds centre are with Halifax's chosen market maker, Merrill Lynch, which executes share trades in the London market; with its share registrar, RBS; and with Datastream, which provides prices.

At the heart of the operation is a software package called Tarot from TCA Synergo. The company is part of Terence Chapman Group, which had a £16m turnover last year from its IT consultancy and software companies in the finance sector.

"We chose TCA Synergo because they very quickly understood what we wanted to do and came up with a suggestion," says Rick Girling, business systems manager for Halifax Share Dealing. "Other suppliers said their existing products would do the job, but we knew they wouldn't."

This last statement reflects the degree of automation that Halifax Share Dealing wanted. "We couldn't alienate our existing customers, who were to become involuntary shareholders," Mr Girling says. "We needed to be able to execute transactions according to their wishes efficiently. Meanwhile, we had to co-ordinate share sales to create an orderly market."

The level of automation means shareholders do much of the work themselves when they come to trade. When they telephone they are asked by a recorded voice to press particular telephone keys to buy or sell. They are then asked to key in their account number. The system sends the information to the registrar, RBS, to validate it and retrieve the customer details for display on the screen of the next available order taker in Leeds.

The order taker now talks to the customer, with an eye on a wall display showing the share price, received from Datastream.

Orders made at the same price are gathered and only transmitted to Merrill Lynch when the price changes, when the number of orders or shares traded reaches a set number, or after a specified time.

Merrill Lynch has agreed to hold a price for 15 seconds after it changes: in that time the Halifax system detects the change and sends the aggregated group of transactions. Merrill Lynch executes them in the market as a single trade, but Halifax Share Dealing itself sends the details to the individual accounts held by RBS.

There are also links to the Halifax parent company's IBM and Unisys mainframe computers (the legacy of a merger in 1995), which print and mail contract notes and where necessary cheques to the customers.

"The order aggregation, again, is to avoid flooding the market," Mr Girling says.

The project was born in August 1995 and always had the clear focus of an immoveable deadline. Mr Girling says this helped towards its success: "We didn't always agree on an issue, but a decision was always made and then we all moved on."

He also points to total openness and honesty among all the business partners concerned: "If one partner hit a problem, we made sure it was treated as a joint problem for everyone."

Another contributor to success was the fact that IT people and end-users worked side by side throughout – an arrangement which has continued and is now being adopted by other parts of the parent group.

Sue Concannon, managing director of Halifax Share Dealing, says: 'Building our own operation from scratch meant we could exploit the latest technologies'

BRIGHT FUTURE FOR ATMs • By Michael Dempsey

A fresh lease of life for new-look 'cash machines'

The familiar 'hole-in-the-wall' ATM has a bright future, linked to smartcard networks

The cash dispensing automated teller machine (ATM) is such a familiar product that bank customers do not see it as a piece of high technology. The slow response to account enquiries on a Friday lunchtime, when many banks' central computers are inundated with signals, is the only time these customers are exposed to the scale and complexity of retail banking infrastructures.

Large international networks of ATMs are now in place, allowing cash card holders to draw directly from an account in London when they use an ATM in, say, Kuala Lumpur.

Electronic cash in the shape of smartcards is moving out of a prolonged experimental phase. Direct debit cards draw money straight from bank accounts in tens of thousands of retail outlets. On the surface, it would appear that the ATM has reached its peak. But in fact this robust and reliable technology is enjoying a new lease of life.

NCR is a US corporation that owes its name to the cash register and today operates across the IT and services industry. But hard cash is still a huge revenue generator. Despite its presence in sophisticated software and hardware NCR remains the world's biggest ATM manufacturer. In 1997 it sold more than 42,000 of these machines. This represents a four-fold increase in sales over five years, with NCR delivering 10,000 units in 1992.

This big increase in ATM sales reflects the fact that cash – as opposed to other means of payment – is still in demand. And that demand is coming from a consumer society that expects more and more convenience in its dealings with the retail sector.

NCR finds it is being called to install ATMs in US locations that are far removed from traditional bank branches, such as bowling alleys and bar restaurants. The largest growth generator for NCR ATM sales is the convenience store, typically a small operation selling a wide range of produce attached to a petrol station. By providing customers with easy access to their cash, the store gains a further attraction – research shows that a high proportion of customers who drop by the convenience to store use an ATM will make a further purchase.

US convenience store group Southland runs 17,000 franchised convenience stores under the 7-Eleven banner. It estimates that 50 per cent of customers who visit a store primarily to use the ATM will then make a small cash purchase. The presence of the ATM helps shift 7-Eleven's stock of snacks and soft drinks.

The economics of ATM ownership is changing, with US national ATM networks operated by Visa and Mastercard removing a previous objection to surcharges on ATM transactions. This means that an ATM operator can use surcharges of between one and two dollars per transaction to justify the presence of an ATM in an obscure location. Suddenly, the ATM that is visited by a few hundred customers per month becomes a practical asset.

Cash and bank statements are no longer the sole products of ATMs. The new wave of ATM sites are beginning to dispense other items that are easily printed. Wells Fargo Bank in the US sells postage stamps from 3,500 ATMs. Just as the ATM located away from the bank branch allows customers to dodge long bank queues on a Friday lunchtime, the stamp-dispensing ATMs attract people too busy to queue at a post office. Each book of stamps is sold at a slight mark-up that delivers a profit to the operator and is justified by the ease of access the ATM offers to the service. In Toronto, the Canadian Imperial Bank of Commerce is linking ATMs to cinema chains via the Internet and printing-off movie tickets.

This wave of new uses for a comparatively old technology is crossing the Atlantic. NCR supplies 80 per cent of Britain's ATMs. A Harris Research survey commissioned by NCR found 72 per cent of the 1,000 interviewees wanted services such as cinema, sports and airline tickets from their ATM network.

A "drive-through" ATM of the type familiar in the US was unveiled near London's Heathrow Airport in May. De La Rue, the UK company that supplies mechanisms inside 20 per cent of ATMs worldwide, sees this diversity the key to future sales. It now makes ATMs capable of dispensing travellers cheques.

De La Rue now provides dedicated cash management software. This studies and responds to the flow of cash in an ATM network, attempting to minimise the frustrations caused by empty machines. Kevin Bond, a De La Rue ATM business manager, notes that cash continues to grow in signficance. "Consumers are looking for more easy access to cash."

Bank cards containing embedded computer chips that can be recharged with data have been marketed relentlessly over the past five years. But with operations such as Visa rolling out these smartcards on a global basis, the electronic alternative to folding banknotes may finally be gaining ground. However, the owners of these smartcards still need to load cash onto the card. And this guarantees the ATM a bright future.

The latest generation of ATMs are being designed in conjunction with smartcard networks. These machines will contain slots for inserting smartcards from different financial groups. NCR believes that upgrading ATMs for smartcards is not a technical challenge. And its current ATM product line is entirely smartcard-compatible.

If the smartcard revolution does materialise, the ATM may appear in new guises. Trials are taking place with telephone-sized devices linked to home PCs that allow the smartcard customer to charge up the cash content of his card without visiting a conventional ATM.

These devices operate as personal ATMs, shrinking the function of the cash machine but effectively delivering the same service.

The sheer utility of the ATM means technology is constantly adapting to exploit its ubiquity and ease of use. The basic ATM idea that began life in the late 1960s has survived 30 years of revolutionary change in surrounding technologies and is being relaunched for the next century.

Bankers attend a demonstration at NCR's financial services 'knowledge lab' in the UK – one of the leading research centres for retail banking technologies. NCR, the world's largest manufacturer of automated teller machines, reports record sales of ATMs

PAYING WITH PLASTIC • By Michael Dempsey

Asia warms to smartcards

More than 600m smartcards will be in circulation within five years, predicts Visa

Marc Lassus is president of Gemplus, a $592m French company that has just celebrated its tenth birthday. Despite his status, Mr Lassus does not sport an expensive trophy watch. He keeps track of the time with a $20 Swatch. A thin metal band inside the face and a small gold square visible through the transparent plastic casing are the only indications that this watch does more than tell the time.

For Mr Lassus, it functions as a ski-pass, courtesy of the embedded microprocessor hidden behind the gold square. The metal band is an antenna that is recognised by sensors on his favourite slopes outside Salzburg.

This is the basic technology that is now behind an ambitious plan by Visa International to move its account holder base into the world of smartcards and electronic cash.

Gemplus started in business making phonecards for France Telecom. Today, it claims to produce 40 per cent of the world's smartcards, installing chips that add functions to the basic plastic card that is the most tangible evidence consumers possess of their relationship with a bank. Gemplus manufactures the multi-function smartcard launched in June by Visa and Standard Chartered Bank.

The idea behind this international venture is that consumers will be attracted to a growing range of services based on just one piece of plastic.

Embedded computer chips are nothing new. But the power available in the space of a thumbprint has grown exponentially over the past decade. The production runs envisaged for this product, with Visa predicting some 600m cards in circulation within five years, render unit costs negligible. And a recent development in IT, the Java programming language from Sun, the computer services giant, means the card can be adapted for new roles inside a very short time.

Gemplus has manufacturing facilities at 12 sites around the world. Mr Lassus says this gives it the capacity to churn out 1.8m smartcards a day. He cites the arrival of GSM mobile phones with a "swipe slot" for adding data to smartcards, and experimental small domestic terminals that can link up to a PC and on to bank networks in order to load money on to smartcards as evidence that banks are on the threshold of a new era.

Critical voices have been heard in the debate over the smartcard future, however. US group Forrester Research agrees that North America will see financial smartcards multiply dramatically: it estimates the number in circulation there will grow from last year's total of 429,000 to 4.7m in 2002. But competing technical standards, with Java going against the Multos system proclaimed by the Mondex electronic cash system, will act as a break on growth.

Poor pilot performance and nagging technology issues will mean smartcards will not achieve eminence in the US until 2002, predicts Forrester.

But in Asia it is a different story. Standard Chartered Bank's Hong Kong, Singapore and Taiwan operations are participating in the Visa smartcard, with loyalty bonuses for cardholders. The card can be used inside a group of participating retailers and bonus points redeemed instantly against fresh purchases. This is where the smartcard comes into its own, sweeping away the complexity of other loyalty schemes such as airline frequent-flyer miles.

Mr Lassus's colleague, Tye Beng Hong, explains that smartcards entitling shoppers to free parking at the flagship Singapore shopping mall, Takashimaya, are a big attraction to consumers. Singapore's DBS Bank has issued 100,000 of these chip cards.

Andy Agnew, a finance sector consultant with Cap Gemini in London, confirms that south-east Asia is a powerful springboard for smartcards. "They don't have the same established infrastructure as the US or Europe, so little has to change. In places such as Singapore, they're seen to be very interested in the take-up of technology."

Mr Agnew cites the Hong Kong Transport Authority's "contactless" smartcard system. A smartcard allows travellers to pass through metro station barriers without queuing to swipe their pass at a turnstile.

Just like Mr Lassus' ski-pass, the Hong Kong card is recognised by a sensor at the entrance to each station. Australia's ERG, a specialist in automatic fare collection, teamed up with IT consultants at James Martin & Co to devise this system, known as Octopus.

Twenty tonnes of coins are taken out of the system every day by the cashless Octopus card, and holding the sums that travellers pay when charging up their card effectively transforms the Transport Authority into a bank. These kind of hidden attributes make the smartcard revolution of great interest to financial institutions.

De La Rue is a £790m UK company that is recording 46 per cent growth at its £143m card systems division, where Margaret Rice-Jones is director of development and marketing. It is supplying smartcards for the Visa project, but Ms Rice-Jones thinks that the high-tech potential of the Java chip, with new applications invented quickly and flashed down on to the card when it is docked at the right terminal, will take time to catch on.

"There are specific functions about which people are happy and familiar when it comes to using cards. The current products we sell smartcards for tend to be single applications, such as a point-of-sale card that can be used at different locations, within a group of retailers or service providers," she adds.

The promise of one bank card that holds personal financial data, registers free points when purchasing goods and uses those free points to let customers drive away without paying a parking fee, is becoming a reality through mass-produced chips and software innovations such as Java.

But as Forrester Research cautions, the initial take-up in Asia needs to be carefully studied in order to devise products that are really attractive to the mass of consumers in western countries.

Standards for new generation smartcards: rival camps need to work together – see report, page 15.

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MOBILE COMMERCE • By Geoffrey Nairn

Vision of 'an Internet with wings'

Millions of people who may never own a PC but who use – or hope to use – mobile phones, will still have access to new Internet services

Surfing the World Wide Web using a mobile phone is today a frustrating experience due to the technical limitations of current cellular networks and handsets.

But the wireless industry hopes these issues will soon be conquered and its vision of an "Internet with wings" has triggered intense interest in bringing electronic commerce to the growing army of mobile users.

Mobile commerce is the delivery of electronic commerce capabilities direct to the consumer's mobile phone. The Global Mobile Commerce Forum, a not-for-profit industry body, predicts 5m consumers will use mobile commerce within the next three years.

Mobile commerce can turn the cellular phone into an electronic purse handling cash, loyalty points, tickets and identification. For the service company, mobile commerce will transform phones into "virtual retail outlets" in the pockets of their best customers.

"We want to turn the mobile phone into something more than a device for talking," says Mike Herman, who chairs a GMCF working group on market development and is mobile commerce manager with Cellnet, the UK cellular operator. Intense competition is forcing operators such as Cellnet to offer new services in an attempt build customer loyalty.

Many mobile phone users switch between operators several times to take advantage of the latest offers and this "churn" can have a dramatic impact on operators' financial results.

"Churn is our biggest problem, so customer loyalty is crucially important for Cellnet," says Mr Herman. Cellnet is trying to build loyalty by offering its customers free text-based services using the Short Message Service (SMS) feature.

As its name suggests, this allows mobile phone users to send and receive short text messages of up to 160 characters that scroll across the phone's LCD screen. The UK operator recently introduced its Genie service, accessed via a special Internet site, that delivers tailored news or current share prices to a customer's Cellnet phone.

Another Cellnet service allows customers who have a Barclaycard credit card obtain statement and other information on the phone's screen. These services are offered free to existing customers and Mr Herman says the limitations of SMS mean most cellular operators today view offering SMS services as a way of building customer loyalty rather than a business opportunity in its own right.

Brokat, a German software company, believes SMS can be developed much further to support sophisticated value-added applications that do generate revenue.

"One of the fastest growing markets is providing services using SMS," says Phil Brown, the UK managing director of Brokat, which has developed one of the first truly interactive mobile banking applications for cellular phones.

"All existing services just push information out to the user, so there is no real security risk," he says.

Brokat's X-SMS Banking service, unveiled in April, claims to go beyond this by providing the security features to allow users to authorise transactions by typing instructions on the phone's keypad.

Users are allowed access to records and banking processes via electronic signatures stored in a new generation of "SIM2" cards. These are more sophisticated that the SIM cards currently used to activate mobile phones, which only store basic subscriber data. The applications sits on the SIM card and transactions are carried out by accessing a screen-based menu for filling out transfer details or requesting information.

By keying in a PIN as confirmation, customers can authorise secure payments or transfers to other accounts, pay bills or check their balance.

Applications such as this are helping to lay the foundations for the mobile commerce era and bringing electronic commence to a an untapped market: the millions of consumers who are unlikely to ever own a PC but do – or soon will – have a mobile phone.

"In Britain, 24 out of 25 households do not have the means to access online services," says Douglas Wright, marketing manager with Syntegra, the consultancy arm of UK carrier BT, which is talking to several UK banks about mobile commerce.

Most banks already offer Internet banking but because of today's low PC penetration rates, they can only scratch the surface of the potential market. Sophisticated and secure mobile Internet services would enable them to reach the much bigger market of phone owners.

To achieve this, more work needs to be done on converging Internet and wireless standards to support mobile commerce. One initiative is the Wireless Application Protocol (WAP), which specifies how Internet content and advanced telephony services can be accessed on digital cellular phones, pagers and other wireless devices.

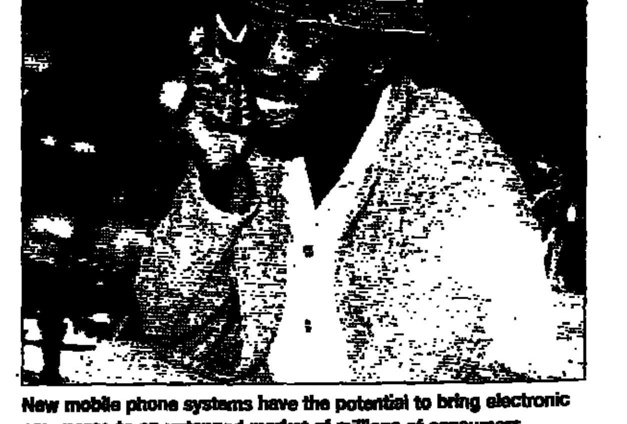
A draft WAP standard has been drawn up to enable companies to offer compatible products and secure services, thus hopefully ensuring everyone works in the same direction. To make the dream come true, today's mobile phones will have to give way to more powerful devices with bigger displays and proper alphanumeric keyboards.

The first multifunctional mobile products such as the Nokia Communicator, have had a mixed reception in the consumer market because of their bulk and weight – although the Communicator has fared better with professional users.

New products are emerging that aim to achieve a better balance. Nokia's follow-on to the original Communicator weighs less while Alcatel's stylus-operated One Touch Com combines the capabilities of a GSM phone, personal organiser and Internet e-mail client.

The final piece in the mobile commerce puzzle is higher bandwidth. Surfing the Internet today with a mobile phone is painfully slow, although there are ways to boost the speed of websites aimed at mobile users.

Nevertheless, analysts believe mobile commerce will struggle to become a mass-market phenomenon until the arrival of higher speed third generation cellular networks, predicted for 2003.



New mobile phone systems have the potential to bring electronic commerce to an untapped market of millions of consumers

MIDDLEWARE • By Philip Manchester

A key issue for business

Middleware software can unlock valuable data assets and provide flexible access to new business services and legacy systems

Financial organisations have long been in the front line of IT development. Since the early days of mainframe batch processing, through the online revolution of the 1970s to the use of the PC in corporate IT in the 1980s, banks, insurance companies, building societies – not to mention money and stock market traders – have led the way in innovative use of IT.

The same still holds true in the 1990s. Financial institutions are turning to middleware technology – a layer of software and services that sits at the centre of modern IT development – to meet a host of new challenges.

Established financial institutions are beset with business challenges on all sides. They face competition from new entrants in their traditional markets, the effects of deregulation and globalisation. At the same time, advances in technology and the shift to electronic commerce increase competitive pressures and demand further investment.

Despite the challenges, established financial institutions have valuable assets and an arsenal of useful technology to deploy in defence of their market position. The three most important assets are the data, the data structures and the processes stored in their legacy systems.

Middleware can unlock these valuable assets. Sitting between the front-end applications that deal with the customers – a Web page for example – and operational applications, middleware gives flexible access to new services and to legacy systems. It bridges the gap between a demand for market-sensitive applications and the tried-and-tested back-end technology.

"Like many business sectors in the 1990s, financial services organisations need technology to integrate their business," says Alfred Spector, general manager of IBM's worldwide transaction systems business. "These companies are dealing with a constantly-changing business environment – new technologies, mergers and acquisitions – and they still need to maintain their competitive edge. Middleware technology can do this."

The Internet – and its ability to give open access – "has had an enormous impact on financial services organisations and the way they deal with their customers," he adds.

"The point of data capture has shifted. Instead of a few thousand internal workers using the databases, there are hundreds of thousands customers with access. They cannot be trained like internal staff, so the front-end systems must be easy to use and give the organisation a coherent image.

Middleware technology is the way to build the link between the point of data capture and the legacy databases, he says.

Steve Craggs of Candle Corporation: as financial companies face frequent changes in software applications, 'the situation cries out for middleware to supply the infrastructure and integrate applications'

Organisations such as Charles Schwab with its Internet-based trading system, or Fidelity Investments, have demonstrated how middleware can help them put market-leading applications together quickly.

Middleware comes in various forms. At its simplest, it can link a PC to a database to carry out simplex queries and information retrieval. At its most complex, it can provide the equivalent of a telephone system – distributing messages between different computers within the scope of an application.

Typically, middleware enables transactions to be channelled from a front-end data capture application – a Web browser on a PC, for example, to a back-end process.

In application development middleware technology can act as an insulating layer between the main components of an application - usually, a Web page, a business process and a back end database. This makes it easier to upgrade or add features to any of the components without effecting the others.

The shelf-life of applications is shrinking and the time-to-market is so tight that you need a new application every couple of months, says Steve Craggs, vice president of the application solutions group at the US systems software company, Candle. "Most of the processes are still the same – with just a small part of the application changing, perhaps. But it cries out for middleware to supply the infrastructure and integrate applications."

"If you look at the finance sector and see who is interested in middleware, there are identifiable groups and their problems are all about application integration," he adds.

Companies trying to pick up the IT pieces following a merger or acquisition, those involved in front office/back office integration and those working to comply with new regulations all face integration problems, explains Mr Craggs.

Not everyone is convinced, however. Mr Craggs says that the technology of middleware is hard to sell: "You have to talk about business services and the direct benefits that can be gained from a having a more flexible infrastructure and the tools to manage it."

There is, however, a strong case for middleware's contribution to easing the burdens of IT management.

"It makes it much easier to manage because you get rid of the 'spaghetti' connections. If an international bank or an insurance company wants to connect to a new service it can introduce it quickly with middleware – regardless of regional or national peculiarities, say, such as BACS in the UK," explains Grahame Tweddle, western European managing director at Mint Communications, a middleware specialist based in Israel.

"When you are sending billions of dollars-worth of transactions through a network, you need to be able to manage it tightly – you can't afford to lose or duplicate a single transaction. Middleware gives you straight-through processing and much less complexity."

Clearly, middleware offers beleaguered financial organisations a tool to build a flexible IT infrastructure for the future. It is no surprise that, after the year 2000 computer date issue and the introduction of the euro currency, installing middleware is rated as the most important technology issue across business.

CHEQUE PROCESSING • By Tom Foremski

Online images will help reduce fraud

Digital images aim to cut back the flow of paper in payment systems

Much has been written about the coming age of digital money, which will cut out cheque processing costs and make it easier for people to purchase a wide range of products and services, especially online. But paper cheques still remain the dominant form of payment in many places around the world.

This is especially true in the US which accounts for about 80 per cent of the world's cheque processing – its financial institutes handle 60bn cheques a year. In Europe, France is the largest cheque-using nation, with more than 6bn cheques are written every year.

But cheque processing is far from simple: until the 1950s, cheques were processed manually, a time-consuming, expensive process. The big breakthrough came with the Magnetic Ink Character Recognition (MICR) standard in 1956 – with magnetic ink-encoded cheques, it became possible to automate cheque processing with machine readers that could handle data input tasks.

More recent advances include intelligent pattern recognition for cheques, known as "courtesy amount recognition" (Car) systems which process more than 30,000 cheques per hour. These systems cut back even further on expensive human involvement, and since their first introduction about two years ago, the Car systems have been improving their recognition rates and the numbers of cheques they can handle per hour.

A key challenge facing Car systems is that they rely on creating a digital image of the cheque and then applying sophisticated image recognition systems to analyse the monetary amount written on the cheque. This requires significant amounts of data storage capacity and fast computer systems.

Newer generations of Car systems, go beyond a simple black and white image of the cheque and use gray scale images, which offer more image information but also drive up the size of the image file and make the image more complex to analyse. But these extra system costs can be offset by higher rates of accurate recognition and a further reduction in human involvement.

So far, Car systems have not been widely adopted, but leading supplier Unisys, the information systems company, is making headway with high profile customers. One of the first grey-scale cheque processing systems in Britain was installed by Unisys at Midland Bank last year.

Unisys has announced a deal with Barclays Bank with an interesting twist that could boost demand for these systems. Barclays plans to offer a service called ImagePay allowing customers to view cheque images online and enabling those who issue many cheques to quickly authorise payments. The system will also cut back on fraudulent cheque scams.

With ImagePay, Unisys' systems quickly capture the image of a cheque presented through the clearing system against a file of cheques that have been issued to a customer. If a match is made, the cheque is cleared and business customers can quickly receive a report that can be integrated into their accounting system, allowing them to more quickly reconcile the payment against their account payable ledgers.

Barclays will also offer the cheque images on a CD Rom disk, which can store thousands of cheque images and provide a compact archival format.

A key part of ImagePay is that Barclays can quickly alert customers if it finds unmatched cheques, and can request that they instruct the bank whether those payments should be paid or not, by mid-day of the same day.

"ImagePay is an essential tool to electronically reconcile paper-based payments using the latest technologies. It provides opportunities to reduce administration costs, enabling staff resources to be used more effectively," said James Wilkins, managing director of Barclays' payments and cash management services.

Unisys' goal with its cheque processing systems is to be able to remove the flow of paper entirely from payment processing systems through digital images, using software-based expert systems that can "read" cheques and pass the information on to IT systems that quickly balance and reconcile payments.

Cheques are useful payment tools – but for certain types of purchases, credit cards have been the preferred payment method, especially in taking sales order over the phone or for online commerce web sites. But with far more people having cheque books compared with owning credit cards, allowing people to use cheques for phone or online purchases makes sense and can boost sales.

Cybercash, for example, offers a service called PayNow which allows a user to write an on-screen cheque that becomes an electronic cheque and can quickly be processed.

A similar service called CheckMerchant allows merchants to accept checks over the telephone or online. The customer provides the merchant with bank information found on their cheque. Information is entered into the CheckMerchant application which then prints out a legal cheque, ready for deposit.

This process is entirely "legal" even though the cheque does not have a signature, because the customer has given verbal or written pre-authorisation. There are, however, regional restrictions depending upon local banking regulations.

For the retailer, accepting cheque information over the phone is cheaper than setting up a credit card account and the cheques are processed just as any other cheque.

FINANCIAL RISK MANAGEMENT • By Mark Vernon

Ways to enhance the business

The rise of raw computing power and better system integration means that financial analysis can be carried out with consistency across the enterprise

The difference between old-style and modern financial risk management can be likened to the difference between flying a Boeing 747 and an F16 fighter. The jumbo jet is aerodynamic and even if you turned off the engines, it would continue to fly – at least for a while.

Similarly, old-style risk management assumed the business would basically keep going, with its role being as an adjunct to auditing and the setting of limits on positions.

The F16, on the other hand, is relatively unstable in the air and requires the constant and instant adjustments of flight computers if it is not to crash. The reason the F16 is designed in this way is that it gives the pilot infinitely more manoeuvrability in the skies. And the parallel here with modern risk management follows precisely the same reasoning.

An increased reliance on computers, it is argued, provides the flexibility a firm needs to compete successfully in the fast-moving, contemporary marketplace. The question asked is: why travel at 50 miles an hour in a 70 mile an hour zone, if you can do so safely?

The key to building such high performance risk management capabilities is found with information, though the effort required to collate disparate data from across the enterprise, and then render it comprehensible for risk analysis, is substantial.

"Many attempts have been made in addressing data integration through the implementation of so-called 'firm-wide' management systems," says Andy Bradford, director of consulting at Elmbridge Risk Management.

"However, such compromising solutions from risk tool suppliers were much too proprietary to provide a common solution for multiple analyses and often too heavily oriented towards the front-office dealing operation."

The problems of integration can, however, increasingly be overcome with today's technology. For example, in an effort to improve the quality of its risk reports, ABN Amro has developed a data warehouse, built by Asset Control, the prime purpose of which was simply to assemble and cleanse data.

"This has led to a 70 per cent lowering of the value at risk, allowing a tighter allocation of capital," says Norbert Bonn, a senior consultant working at the bank.

Another important factor, practically deliverable now, is raw computing power. A bank modelling its exposure on a Monte Carlo basis, for example, which assumes not that the market can be solved but that as many scenarios as possible need to be anticipated, can often be simultaneously handling several hundred thousand positions.

What is more, this must crucially can be calculated in real-time, if, for example, the demands of the Capital Adequacy Directive are to be met. But being able to deliver such information relatively cheaply has had a cultural impact, too.

Formerly, the technology worked in the interests of the professional risk manager who could, in effect, keep the knowledge to themselves, so that only they really understood the numbers that they produced, says Hal Hovland, an executive director at Financial Objects.

"However, mathematical models can now be automated and simplified for everyone to use, thereby making the information available to whoever needs it," he adds

This also brings the advantage of analysis being carried out with consistency across the enterprise, essential if risk information is to be useful. This was recognised by Barclays which, following the last recession, acknowledged that it had to change its approach to credit risk management.

The point is not to minimise risk but to understand the trade-off between risk and reward and then ensure that the group is properly compensated for the risks it takes.

An effective portfolio management strategy to deliver this meant actively managing risk from the centre. Barclays worked with WhiteLight to develop a new application known as the Group Portfolio Management System, (GPMS).

"Although we are working with very large data sets, WhiteLight gives us the ability to analyse credit portfolios across multiple dimensions and yet still drill down to account level information within one model," reports Kim Patel, research manager for the GPMS project.

"WhiteLight also allows us to adapt GPMS models quickly in response to new business requirements. The end-result is a very flexible modelling environment which facilitates better-informed decision-making."

This last comment picks up on another important trend in the financial marketplace, the broadening of the product interests of organisations. And it is for this reason that risk management is increasingly being regarded not just as a "plumbing" issue, handled by that corporate irritant, the compliance department, but as an opportunity for business enhancement, attracting attention from the board level down.

"As a tool to gain competitive edge with regard to client sales, the most attractive parts of the risk management market today is found at the high end – for example, with large corporations that are active in financial markets," explains Mike Mathias, head of consulting, securities and capital markets division at IBM.

In this arena, risk tools are, in effect, being pushed out to the clients, so that they can do the analysis of portfolios of complex trades or calculate the value of options. This will help the corporate treasurer decide what to do. He can then call the bank to execute the trade, says Mr Mathias.

"This changes the relationship between the two parties, with the power moving out of the bank, so that – in a sense – it is increasingly taking only an advisory role," he says.

This kind of service is finding increased deployment, with the ubiquity of the Internet, with the only significant piece missing being the automatic execution of the trade, dependent upon 128-bit security.

With that not far away, however, the risk management circle could find itself completed.

Videoconference system brings big savings for bank

The Royal Bank of Scotland, which holds up to 8,600 hours of meetings a year between Edinburgh and its divisions throughout the UK and abroad, estimates that it saves as much as £70,000 a month, mainly due to reductions in travel.

The bank operates with British Telecom's videoconferencing systems over a Philips digital PABX network, with four studios in London, three in London, one in Manchester, as well as 30 other desktop systems in non-centralised regional offices. It also has links with associated companies across Europe and the US.

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Software developers face a difficult eurozone challenge

Accounting systems are increasingly working with separate financial management software, but the euro currency and year 2000 computer date issues are holding back Web integration, reports **Rod Newing**

FT IT

Software at work

Focus on accounting systems

Software accounting systems have always been strong at carrying out their primary task of recording transactions. However, they have traditionally been much weaker at providing management information and reporting, resulting in many companies re-keying their monthly balances from their accounting systems into spreadsheets, which allow them to manipulate, analyse and report the figures in any way they want to.

The accounting system vendors have all improved their own report-writing functionality, as well as integrating third party products to provide additional functionality. However, a trend is clearly emerging to divide the tasks of recording transactions and reporting between different specialist software.

Many organisations are choosing to restrict the use of their new accounting packages to executing transactions. They are transferring the resulting information into a purpose-designed software package for reporting and analysis. These are much more powerful and easier to administer than a spreadsheet, yet they frequently retain the spreadsheet as one of several interfaces to the data.

In this way, British Airways is using its new Walker Tamaris general ledger system in conjunction with Arbor's Essbase multi-dimensional online analytical processing (Olap) server. Ethyl Corporation chose to export data from its new SAP R3 package into a Microsoft SQL Server data warehouse, from which reporting is carried out using Cognos Impromptu report writer and PowerPlay OLAP tool.

"Most ledger vendors are trying to convince people that they can produce all the reports they need, themselves," says Nigel Pendse, lead author of "The Olap Report" (see website http://www.business-intelligence.co.uk).

"However, I don't think they understand analytical applications, just as the Olap vendors don't understand transaction processing."

One of the big advantages of this approach is that Olap tools are extremely flexible. They are excellent for reporting and include powerful analysis and charting capability. They can also be used for financial consolidation within groups of companies, as well as for planning, budgeting and forecasting.

The use of a single Olap tool provides an ideal solution for integrated financial management, as well as allowing operational and marketing data to be integrated. As well as PowePlay and Essbase, Applix TM1, Hyperion, Oracle Express, Timeline and SAS are also popular with accountants and there is a range of products from the traditional decision support vendors. Cognos has been strong in this area, having resale agreements for its PowerPlay product with Baan, Coda, Dillon Technologies, Hyperion, JD Edwards, MDIS, Oracle, PeopleSoft, QSP, SAP, System Union and Tetra.

There will be a big boost in this area when Microsoft introduces SQL Sever 7.0, the next version of its relational database, which will include Microsoft Olap Server. This will provide relatively cheap Olap functionality and most vendors of reporting and analysis tools are porting their products to act as clients.

Mr Pendse sees the recent merger of Arbor and Hyperion as a defensive move. "Olap Server is 20 times cheaper than Essbase and, in some ways, better," he says.

Researchers at the Gartner Group agree with the need to integrate financial and non-financial information to obtain better reporting. "Many companies have installed new financial systems and are not getting value because they cannot get information out," says Elizabeth Malis, research director. "Organisations also need performance benchmarking and better business metrics, not just financial transactions."

As the year 2000 "window" is closing, Ms Malis points out that a slow-down has started in the general ledgers' market. "Although SAP continues to grow, the growth rate of Oracle, PeopleSoft and Baan have reduced," he claims. "They will therefore seek growth from newer applications, such as analytical, budgeting and planning applications that are more strategic and less tactical."

Most of the accounting system vendors have completed their year 2000 updates. However, some users are having problems with their upgrades because of the need to also upgrade databases, operating systems and hardware.

The developers have also had to deal with the euro, which comes legal tender on January 1, 1999, and is followed by a three-year conversion phase. Organisations within – and trading with – the euro area need to be able to handle the complex "triangulation" rules for conversion between national currency through the euro.

At some time during the conversion period, businesses and other organisations within the euro countries must convert their accounting data to the new currency, including all their historical transactions. "Writing the software utilities needed to do this is causing problems," says Dennis Keeling, an independent software analyst. "The vendors must meet the fiscal, legal and audit requirements of each of the eleven countries."

However, these requirement vary – and legislation may not be completed until 2000. "Another problem is that the systems may need to shut down for 1-3 days whilst converting historical transactions, which is a significant computing feat," he adds.

Because of the need to focus on the euro, extending the reach of accounting systems to the Web is more advanced in the US than Europe. "The software vendors were surprised at the difficulty of implementing Internet technology," says Ms Malis. Some suppliers, especially PeopleSoft, have had to re-architect their software to move much of the processing away from the desktop PC to the server, she adds.

Mr Keeling, who has been a critic of Internet technology in the past, is impressed by recently released version 11.0 of Oracle Financials. "I applaud the Oracle Java applet viewer," he says. "Rather than being a Windows or character-based interface, it is network-centric. Products that take advantage of this type of architecture are more scaleable and easier to manage, because everything is on a server – although it needs to be a big one!"

Euro trial in Italy: Renza Renzi displays euro notes made available in local banks in two Tuscan towns, Fiesole and Pontassieve. Euros worth L750m ($440,000) were put into circulation in what was described as the most extensive Italian trial of the new currency. However, all the notes have disappeared, reportedly swept up by collectors. Pictured in the background is Fiesole's medieval bell tower AP

ACCOUNTING SOFTWARE GOES GLOBAL • By George Black

A race to internationalise

The arrival of the euro is likely to accelerate the trend towards international software

Accounting software is rapidly becoming internationalised as business becomes more global and developers seek broader markets.

The trend first became apparent in the late 1980s and in this decade has gathered pace.

Through the 1990s, the top end of the market has been pushed towards internationalisation by leading vendors such as SAP, System Software Associates (SSA) and J D Edwards.

They have convinced most of the largest multinationals that it makes sense to standardise on software products which can handle their business requirements all round the world.

At the same time, the middle of the market, comprising a much larger number of medium-sized companies and their systems suppliers, has been moving in the same direction. Most companies which trade internationally still run different accounting systems in each country – but many want to change that.

The trend has also created a fast expanding market for mid-range accounting software developers such as Scala, Navision, Agresso and Systems Union.

Even at the lower end of the market, where software has usually been designed for small businesses with no international involvement, a few products aimed at users across borders such as Intuit's Quicken and Microsoft's Money have become popular.

"Without a shadow of a doubt, the market is now headed towards internationalisation," concludes John Tate, a director of the software consultancy, Tate Bramald.

The two main reasons for this, he says, are that many more businesses are operating in more than one country and that developers can see the financial advantages of being able to sell their products more widely.

International businesses are deciding that they want to use the same systems in every country where they have a presence, not least so that staff can move from one place to another and be able to carry on working normally.

Yash Nagpal, UK managing director of Navision, says that large companies feel more secure in buying from a global supplier than from a national one. Suppliers such as Navision now sell in more than 70 countries.

For developers, the extra cost of incorporating features to meet the different requirements of other countries on top of a development budget of tens of millions of dollars is relatively slight, while there are good prospects of greatly increasing revenue.

For European developers, the single country market has become too small to justify the high cost of being in the business. The arrival of the euro is likely to accelerate the process of product internationalisation, as it should help to consolidate a single European market.

Another reason for the shift to international products is that they are now capable of being scaled down by multinationals to suit the requirements of their smaller subsidiaries abroad, notes Dennis Keeling, director of the UK's Business And Accounting Software Developers' Association.

The standard model is now a single package for the world, sharing the same data and easily adaptable to the requirements of each country. Vendors who have stuck with different versions of their product in different countries have fared generally less well than those which have moved to international products.

Some of those which used to hold strong positions in national markets are now losing ground to other software suppliers who have entered their markets from abroad with international products.

A different strategy

An apparent exception to the trend is the very successful UK developer, Sage. It owns market-leading but different personal computer accounting software products in the UK, France and Germany, with a strong contender in the US.

Its growth strategy has been not to internationalise its existing products but to build on its dominant position among small businesses in Britain by acquiring similar products in other countries.

Its theory is that brand name is more important than standard features and that to internationalise necessarily means to make products more complex and less user-friendly.

Whether Sage continues to prosper could be a test of whether the lower end of the market will remain at least partly national or whether it will follow the rest towards internationalisation.

Mr Tate argues that most low-end developers who do not internationalise their products, either because they think there is no need or because they cannot afford to, are likely to get squeezed out.

"They cannot gain the benefits of economies of scale from the international market and customers may move up to international packages to get the benefits of being supported by a larger supplier," he says.

Neil Robertson, UK managing director of US PC product developer Great Plains Software, says that users are more astute as they come to buy their second-generation or third-generation system.

"They see the disadvantages of buying from a single country supplier and know that there will be a limited amount of new functionality which it can afford to develop," he says.

Most of the development budget for smaller suppliers will be taken up just in achieving year 2000 and Economic and Monetary Union (Emu) compliance, he says.

Doubts about the ability of suppliers to meet these two crucial objectives are causing a huge amount of migration in the market.

There is also the risk that a leading vendor could launch a new internationalised low-end accounting package market and push out existing suppliers. SAP and its competitors are evidently keen to expand downmarket.

The rush to upgrade could soon be past its peak. Mr Keeling thinks that by 2000 all the activity caused by the date change problem will be over and the software industry could suffer a recession similar to that which followed sterling decimalisation in 1971.

Euro enthusiast: Theodore Waigel, Germany's finance minister, receiving an honorary degree at the University of South Carolina, where he spoke on the global impact of the euro. AP

MAXIMISING RETURNS • By Joia Shillingford

A capital way with money

Forecasting software helps banks maximise returns and offer competitive prices because they know how much each loan costs

How do you improve return on capital if your business is a large commercial bank? That is the question that faced Greenwich NatWest, the global debt markets arm of National Westminster Bank. It has found the answer in forecasting software.

Now, when staff at Greenwich NatWest put together a loan, they can see how profitable it will be for the bank. Once they have entered the client's data, the software from London-based Interactive Forecasting (If), makes it easy to run through different scenarios.

For example, the loan could be structured so that larger repayments are made in years four and five of a capital project, such as building a power station. Or the debt funding could be raised partly in bonds. Or Greenwich NatWest could underwrite the loan and bring in other banks.

Greenwich NatWest's criteria for loans has been built into the software, so that deal originators can see at a glance whether the loan they are about to propose will meet them. If not, the software can show how much more capital or income is needed, so they can try structuring the loan in a different way.

Also keyed into the software are the capital adequacy rules for different types of debt, which state how much money the bank must keep in its reserves for each type of loan. Steve Savage, director, balance sheet management at Greenwich NatWest, says the bank aims to have a balanced portfolio of different types of loans and its target percentages for types of debt are included, too.

The bank used to use basic yield calculation software to help it make decisions about debt. But it decided to look outside for another solution for several reasons.

First, it wanted a dedicated information technology resource. Second, it wanted someone to take a fresh look at its requirements and not just produce software that did things the way it had always done.

The software is based on If's forecasting modules, but has been customised for Greenwich NatWest under a sole licence. Mr Savage says: "We looked at some off-the-shelf products but they couldn't handle the level of complexity we needed. The cost of the If system was in the tens of thousands plus the licence fee, but we feel we got value for money."

A number of deal teams within the bank have already started to use the software on live projects. Mr Savage feels it helps Greenwich offer a better service to clients.

"Sales people no longer have to build complex spreadsheets when structuring loans," he says. "Now they can enter the data into Excel-based forms and they are prompted for all the information they need."

This means that a loan package can be put together in several hours instead of several days. On top of this, with just a few clicks of the mouse, deal teams can produce charts and graphs to illustrate their proposals or turn these back to their underlying tables of figures.

"If he client wants to strucure the loan differently once the data has been entered, it takes minutes – not hours – to show how different debt structure would look," says Ms Mirum Hehir, assistant diretor, structured finance. "Upto 15 different tranches of loan can be viewed separaely or combined to give a sigle view."

Another benefit of the syem, says Ms Hehir, "is beause so many of Greenwh NatWest's criteria are bt-in, so it takes us much les time to check deal origirtors' models."

The chance of errors bing made in models is mch lower, and any that ae made are much easier t detect.

"You can quickly see when a strange and unusual spike occurs in a graph," adds Ms Hehir. "From there, it is easy to drill down to the underlying data and correct it."

The system is designed to handle multiple currencies. The exchange rate for, say, the dollar is programmed in centrally and cannot be changed by deal teams. This means that every dollar-based debt proposal is based on the same exchange rate, so a deal "cannot be made to look sweeter" by putting in a rate of two dollars to the pound.

The software will be rolled out to the remaining deal teams during June and is also being used in one or two other areas of NatWest, such as acquisition finance.

"This tool help us to maximise our returns and offer competitive prices because we know how much each loan is costing," says Mr Savage. All proposals are based on common criteria and credit ratings, not on individual spreadsheets, and even the cost of different deal teams is programmed into the system.

CASH MANAGEMENT: Enterprise resource planning • By Joia Shillingford

ERP vendors eye treasury market

More than 40 suppliers of treasury software are under pressure to offer extra features

Two leading vendors of enterprise resource planning (ERP) software – SAP and Peoplesoft – have just introduced cash management modules designed for the treasury functions of large companies. What effect will this have on the existing treasury software market?

Tony Kelly, ERP alliance partner manager at the European computer services company Cap Gemini, says: "Incumbent suppliers of treasury software need to be concerned because of the sheer muscle, client list and development resource of ERP vendors such as SAP.

Their resources will ensure that their products are comprehensive. ERP suppliers also have the advantage of being able to offer integrated software for a lot of other business functions such as order-processing, accounting, manufacturing and personnel, he says. Mr Kelly predicts that other ERP vendors will enter the cash-management fray. He says: "The top ERP vendors – SAP, Baan, Peoplesoft, Oracle, SSA and JD Edwards are always leapfrogging each other to provide more functionality.

"In four-to-six months' time, they will probably all have the same core cash-management functions, but by then Oracle will have something SAP hasn't."

Longer term, this functionality will be offered to medium-sized companies in one of three ways: through a standard licence sale, through a cut-down version, or through a bureau or outsourced ERP service provided by a computer services company, he adds.

However, Mr Kelly believes that there will always be some specialised treasury functions it will not make sense for a general ERP supplier to offer. In such cases ERP vendors will provide links to an external package, though the level of integration may never be as complete as for their own software.

Moreover, not all companies are interested in a one-package-fits-all approach to managing their business. And some are not willing to go through the lengthy process of implementing ERP software. Others are wary of adopting a cash-management system from a company such as SAP that is new to this area, and is reportedly having to do some redevelopment work on its cash-management module.

The 40 or so treasury software suppliers (including Global Information Solutions, MCM and Bank of America Swallow Business Systems) have some time before all but their largest customers defect. But they will probably be under pressure to add extra features. It can only be good news for corporate treasurers.

ERP software: see page one.

Companies seek IT directors with sharper business focus

Leadership and the ability to communicate are qualities needed by chief information officers, reports John Kavanagh

Breakdown of communication between IT directors and company boards means that many of the hopes for IT as the key to new ways of working and partnerships with suppliers and customers are being eclipsed by a desire to use it simply to cut costs.

This is one finding of recent research commissioned by Korn/Ferry International, executive search specialist, with the *Financial Times*, which shows that IT directors are being kept outside the boardroom rather than at the heart of business strategy.

The survey of IT directors and chief information officers finds considerable differences in IT representation at board level across the US, the UK, Germany and France. This ranges from just 13 per cent in France to 36 per cent in the UK and Germany and almost half in the US.

Nonetheless, when asked whether IT directors will regularly make it to chief executive in the next five years, less than 30 per cent of those in the US believe this will happen, compared with 46 per cent in France and a third in the UK.

"The IT function is seen as enabling business plans to happen, but not as a contributor to those plans in the first place," says Mina Gouran, managing partner of Korn/Ferry International's European advanced technology practice. "Company boards consist of people who have immediate impact, so IT should be there, alongside finance, manufacturing and marketing, because IT knows the potential."

KORN/FERRY INTERNATIONAL

The fact that only a minority of IT directors are on the board "is perhaps a reflection of the type of people leading IT," she adds.

This last comment underlines the finding that IT directors see their main obstacles to the top as being their lack of business experience and a perception among other executives that they are too technical. This applies especially in the US and the UK.

IT directors themselves believe they need business experience outside IT – not just to get on the board but simply to do their own jobs well. Around 80 per cent across all four countries agree here. Indeed, 80 per cent in the US and two-thirds of those in France and Germany believe an MBA or other academic grounding in business skills is important to success in IT management. In the UK, 54 per cent support this notion.

In addition, more than 90 per cent across all the countries believe the ability to communicate key messages to top management is necessary for success as head of IT – this is even more than the vote for in-depth knowledge of IT as a key success factor. The US respondents, in particular, are almost unanimous here.

Other recent research has also highlighted communication as vital for full business exploitation of IT – and revealed the IT function's shortcomings. A particularly telling analysis by CSC Research Services of its 10 annual international surveys of IT directors' top concerns goes as far as to suggest that directors are getting bored with hearing about the wonders of information technology.

"Aligning IT and company goals has been in the top three issues for the last 10 years – and number one for the last two years," says managing director John Cooper. "This is worrying, as it implies that there's been little progress. It is probably also unique to IT: do marketing and production people feel unaligned with the business?

"IT people have complained for 30 years that their business colleagues do not understand them – and they are now concerned about continually pushing the importance of IT, because they think directors are bored with it and still cannot get to grips with what it can do for the business."

This lack of understanding means business executives fall back on viewing IT as a cost, rather than an investment, says Mr Cooper. This is confirmed by the CSC Research Services finding that cutting IT costs has been in the top four issues for five years.

"Unless business people come to understand that IT is an enabler, they will continue to see it as a cost," he says.

The Korn/Ferry International and *Financial Times* research supports this idea that many business directors have a simplistic view of information technology. In particular, it highlights the continued view among many business executives that IT's role is only to cut costs.

Almost half the US IT directors and more than 40 per cent of those in the UK say this is their most successful argument when seeking more investment. The prospect of improving customer service is some way behind and other issues, such as improving communication, are a long way back.

The future does look a little brighter: IT directors certainly see their role changing. Around two-thirds say their role is already changing, the main reasons being business and IT uncertainty, plus to increase business focus.

Asked how their role will have changed by 2003, "more business focus" receives the biggest vote in the US and the UK.

This change is in line with board directors' expectations, says Ms Gouran at Korn/Ferry International: "In our IT executive searches, business employers specify varying characteristics – but all of them want business awareness. This has become far more pronounced in recent years, because of rapid business change."

Philip Schneidemeyer, vice-president of Korn/Ferry International's advanced technology practice in the US, sees IT directors' own ambitions playing a role here: he has job candidates increasingly asking if their peers are reaching chief executive level (his simple answer is, "No"). Meanwhile, he sees some companies extending the IT directors' role into business: for example to cover logistics as well as IT. Indeed, he believes companies seeking the best IT directors will have to show commitment to IT as part of business strategy.

But at the same time IT directors should examine their own abilities, Mr Schneidemeyer says – especially if they want to get to the top: "What distinguishes the best IT directors are leadership and the ability to communicate - which is just the same as in other executive jobs."

For more information on the report on the changing role of the CIO/IT director, contact Joyce Renney at Korn/Ferry International in London, telephone (44 171) 312 3100; fax (44 171) 312 3100, or write to Korn Ferry International, 252 Regent Street, London, W1R 5DA

FT IT

The changing role of the IT director

Following last month's report, this feature highlights more findings in a new research study on the role of IT directors and chief information officers, commissioned by the FT and Korn Ferry International, the recruitment specialists

Philip Schneidemeyer, vice-president of Korn/Ferry International's advanced technology practice in the US: Companies seeking the best IT directors will have to show commitment to IT as part of business strategy, he says

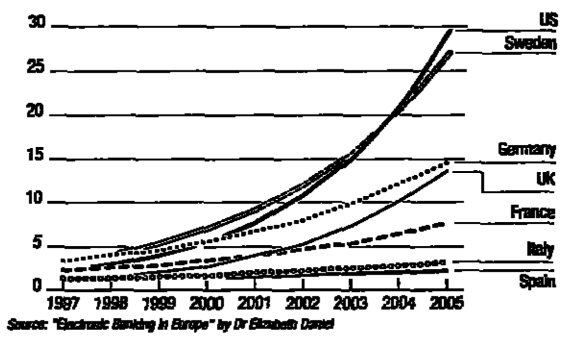
Mina Gouran, managing partner of Korn/Ferry's European advanced technology practice: 'In our IT executive searches, business employers specify varying characteristics – but all of them want business awareness'

Rising PC ownership fuels interest in online banking

Electronic banking in Britain is forecast to rise by more than 30 per cent a year until 2005, according to a new report. More than one-in-seven customers are expected to be using the Internet, PC banking or interactive television to carry out their banking transactions, says the report, *Banking in Europe*, written by Dr Elizabeth Daniel of City University.

Electronic services offer benefits to both banks and customers, thus creating 'a virtuous circle' fuelling the growth of online services, the report adds. Customers will benefit from the convenience of banking in their own home or from their office desk.

Rising PC ownership and Internet connections are among the key drivers of this trend, says the report which is published by The Stationery Office in the UK, (tel +44 (0)171 873 9090), and priced at £395.



Although the current usage of electronic banking is low, usage is expected to grow swiftly, especially in the US and Sweden

SUPPLIER PROFILE • By Daniel Green

Apple fights back

The company's share price doubled in the first quarter of 1998 at a time when other personal computer makers were warning that profits were being hit by lower prices

The last six months have been an unusually pleasant experience for the world's 20m-plus Macintosh computer users. Apple has returned to profit, sales of new models are breaking records, and the latest version of the operating system, MacOS 8, has been a hit.

This reversal is only modest, but it comes after several years of falling market share and profits.

Apple's decline is usually blamed on its failure to licence out its operating system MacOS, as Microsoft did with DOS and then Windows.

But the recovery seems to be the result largely of the launch of new computers that are faster than similarly-priced machines running Microsoft's Windows.

The new hardware is a range of computers based on the G3 chip made by IBM and Motorola. Independently-designed tests suggest G3-based computers are almost twice as fast as similarly priced Pentium-based computers. This has allowed Apple to abandon some of its soft-sell approach to advertising its products and replace it with advertisements that directly compare MacOS performance with Windows 95.

Enough customers are being persuaded to buy G3 computers for the model range to have been the fastest seller of any Apple launch in the company's 21-year history. New laptops (called Powerbooks) launched in May should allow Apple to claim a speed advantage of up to four times similarly-priced Pentium-based laptops.

Not surprisingly, perhaps, Apple's share price doubled in the first quarter of 1998 at a time when other personal computer makers were warning that profits were being hit by lower prices.

Much of the credit for the change must go to Steve Jobs, one of the company's founders and, since July 1997, "interim chief executive".

Mr Jobs quickly demonstrated his determination to do away with many of the strategies adopted by the three chief executives that have held top spot at Apple since he left the first time.

- New products are being launched at lower prices. The new G3 Powerbooks start at a little over $2,000 (under £1,700 in the UK). The consumer-targeted iMac will go on sale later this summer at about $1,300, while G3 desktops aimed at businesses start at about the same level. Previously, Apple would launch the highest price models first hoping to maximise profit margins at the expense of sales volumes.
- Macs are friendlier to Windows software than they used to be. Macs can read PC floppy discs and are delivered with software designed to translate a range of Windows program files for the Mac user. An alliance with the old enemy Microsoft has led to the launch of the Office 98 suite of programs (including Word, Excel and Powerpoint) on the Mac before their Windows launch.
- For those who need to run Windows programs, there are several packages that run Windows 95 (or MS-DOS) on Macs. One Apple executive says the best one is Virtual PC 2.0 which, he said, ran Windows 95 about as fast as a 100MHz Pentium on the new 250Mhz Powerbook. New G3s sold in Germany have Virtual PC included. Indeed, Mac boosters in California are suggesting that the increasing speed advantage of G3 chip machines means that Windows emulation on G3s could be as fast as the real thing next year.

There is still a long way to go before Apple recaptures its former glory, and there are two areas in which Apple clearly lags behind the Windows world.

One is the sheer range of hardware available. There are no sub-notebooks running MacOS to compete with Windows CE, for example. The nearest is the Powerbook 2400, made by IBM and sold largely in Japan, although some are sold in the US.

The other is the near invisibility of Macs and Mac software in mainstream shops. In the US, Apple has done a deal with one of the biggest US computer retailers – CompUSA – to the exclusion of almost all others.

CompUSA now has Apple "stores-within-stores" at its various outlets.

The company has also gone into internet shopping. The online Apple Store allows people to design their own computers, picking, for example, how much memory, what kind of screen and how powerful a microprocessor they want. Lively interest is reported in the recently-launched Apple Store in the UK (*web site: www.apple.com/ukstore*). Similar ventures are planned for other European countries.

Steve Jobs had another recent surprise: in a significant move into the consumer market, he unveiled iMac – "a radically designed Internet computer, aimed at home and educational users ... it is the Internet-age computer for the rest of us," he said.

Feature of the iMac machine include a translucent design, easy Internet access and PowerPC G3 performance. It will be launched next month at $1,299

"We've brought romance and innovation back into the industry," claims Mr Jobs. "iMac reminds everyone of what Apple stands for."

There is, however, one further factor that may yet hinder Apple's recovery. The Mac is popular in creative industries such as advertising and the media, but for general business users it suffers from an image problem that even Apple is hesitant to admit.

When shown demonstration versions of the recently-launched Powerbooks, one transatlantic management consultancy that is a long-term user of Macs, said its main concern was that the Apple logo was "too big". And a UK telecoms industry customer with several thousand Powerbooks does not want its name publicised. There used to be a saying in business that no one got sacked for buying an IBM computer. Today, "Windows" has replaced "IBM".

Apple is fighting back through sheer computing power and energetic marketing. But IBM's dominance lasted for more than 30 years, and Apple may have to increase the performance gap a lot further before reclaiming ground it has lost to Windows in recent years.

In upbeat mood: much of the credit for Apple's recovery goes to Steve Jobs, the company's co-founder. Since July 1997, he has been interim chief executive AP

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INTERVIEW • Ed McVaney, head of J D Edwards, the software company, talks to Rod Newing

Why software can be 'a mortal enemy'

Companies that are going to be leaders in the next decade will be nimble and fast-moving. This means having software that supports rapid implementation of new ideas, says Ed McVaney

One of the side effects of the new European currency and year 2000 computer date issues is that it is slowing down implementation of Web technology.

"If organisations were not so desperate to survive these two issues – the euro and year 2000 – they would be focusing on electronic commerce and Internet supply chain technology," says Edward McVaney, chairman and chief executive of J D Edwards, the US-based enterprise software vendor. "These issues are retarding the implementation of great new technologies."

He believes that implementing client/server technology, linking a number of small desktop computers with a powerful central computer across a network, was "very painful and the advantages were minimal".

However, network-centric computing with desktop computers linked to the central machine by Internet technology is the opposite. "It is a relatively simple and easy technology with low pain and very high gain," he says.

Internet technology gives an individual direct secure access to the business systems of a supplier or customer. The next logical step is to link the two systems directly. Mr McVaney expects this to be automated once the World Wide Web interfaces start being used extensively.

This is becoming easy to do and companies, such as Crossworlds and Frontec, are providing universal bridging software that take a transaction in J D Edwards and automatically converts it to SAP or JBA format. Although it is in its infancy, Mr McVaney is so confident that this represents the way ahead that he has invested in Crossworlds.

"The ability to be 'intimate' with customers and let them 'touch' your systems will be the key to success," he suggests. "Speed and the ability to implement new ideas and organising principles will be the elements of success, replacing land, labour and capital as wealth creators.

"The companies that are going to be leaders after the turn of the century will be nimble, dextrous and fast-moving. This means having software that supports rapid implementation of new ideas."

As businesses continue to change, companies need "in-the-field, on-the-fly" adaptation of software to new organising principles and new ideas, he says.

"The speed with which you adapt to change will be the primary key to success in business in the next century," he believes. "But software is often a mortal enemy of change. It can be complex, cryptic and symbolic – and it takes hordes of computer programmers to modify it. And they intimidate you!"

He adds: "You need 'breakthrough simplicity' to remove the complexity, but organisations that are locked into traditional technology will fall behind."

One of J D Edwards' highest priorities is to cut down implementation times. Together with others in the industry, it is developing an automated implementation process. Its solution is code-named Auto Composer and is inspired by the TurboTax interview process for preparing income tax returns in the US. This has taken a very complex process and made it into a simple interviewing process so that ordinary citizens can prepare their own tax returns.

The goal of Auto Composer is to drive out 30-60 per cent of manpower required in the implementation process by the end of 1999. The implementation team will go through an on-screen interview process to describing their own organisation, cascading through be levels of detail.

However, Mr McVaney doesn't believe that the popular view that enterprise software is too costly and takes too long to implement applies to his own software. He likes to talk about a customer with four manufacturing sites in North America that went live with manufacturing, distribution, logistics, financials, payroll and human resources in just five months.

"It wasn't so much our software as their leadership that made it happen," he says. "It is the number one key to success in implementation, not how you re-engineer the company. If you have good leaders things go well, otherwise things become bureaucratic and drag out."

Enterprise software vendors, such as J D Edwards, SAP, PeopleSoft, Baan and Oracle have prospered because of the wide reach of their software, which provides a single integrated solution for all major functions in an organisation.

So-called "best-of-breed" software vendors that concentrate on doing one thing better than anybody else and integrating with other software have suffered, especially Coda, which provides one of the best financial suites, but has been acquired by Baan.

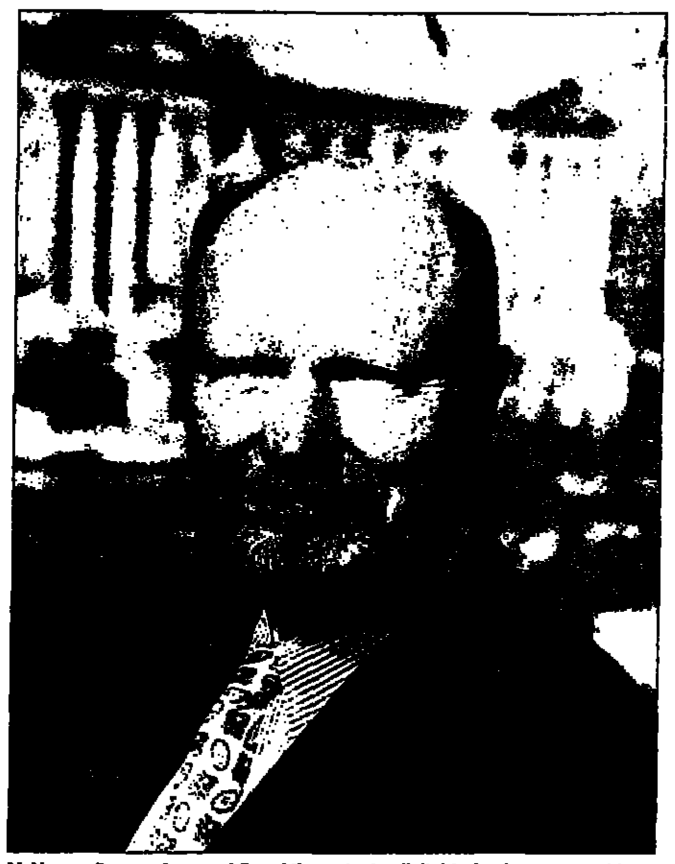
Nevertheless, Mr McVaney believes that in the long term, best-of-breed will eventually succeed. J D Edwards is committed to being best-of-breed in everything it does – this doesn't mean that customers will have to deal with multiple vendors, as there will always be a strong tendency for organisations to want to have a single vendor contact that is held accountable.

"We know that we can't be the best at everything we do when we cover such a broad suite of products," admits Mr McVaney. "People don't want to know about the complexities of integrating software, but will buy the total solution from us and expect us to amalgamate a solution from mixed vendors – and make it work!"

Best-of-breed is inevitable and a great idea that is ahead of its time, he adds. He also expects the interface between different vendors' software to become much easier and more disciplined, either using third party products such as Crossworlds and Frontec or software developed in-house.

"Electronic data interchange is already providing integration, and Crossworlds is simply an advanced form of that," he adds.

The detailed mechanics of implementation are going to become much simpler and result in a dramatic reduction in the man-hours required, concludes Mr McVaney. "We have to achieve radical breakthroughs in simplicity, which will totally change the landscape of enterprise systems."



McVaney: Companies need 'breakthrough simplicity' to implement new ideas

J D Edwards man at the top

Edward McVaney: chairman and chief executive of J D Edwards, the enterprise software vendor, based in Denver, Colorado.

Education: Mr McVaney holds a science degree in mechanical engineering from the University of Nebraska and a masters degree in business administration from Rutgers University. He is both a certified public accountant and a certified data processor.

Career: before co-founding J D Edwards in 1977, Mr McVaney, was partner-in-charge of information technology and consulting services for Grant Thornton from 1970.

He joined from Peat Marwick Mitchell and Co (now KPMG) where he was a consultant in manufacturing and information technology. Before that, he was an operations research engineer and data processing specialist with the Bell system.

PROFILE: PeopleSoft • By Geoffrey Wheelwright

Global supplier with an expanding portfolio

The US company provides a wide range of applications for large corporations and aims to set the pace in software applications for Emu

Dave Duffield expects to be in charge of a company with annual revenues of $1bn by the end of this year – and the way things are going, he is well on course to meet this target.

Mr Duffield is president, chief executive and founder of enterprise software giant PeopleSoft, a company he established in 1987 to sell human resource management software to corporations.

PeopleSoft now sells a great range of applications for large corporations, including finance, materials management, distribution, supply chain planning, manufacturing and human resource software.

The company boasts customers in a vast range of markets such as communications, financial services, health care, manufacturing, higher education, public sector, services, transportation, government and utilities. It enjoyed 1997 annual revenues of $815m.

As Mr Duffield aims for the billion dollar annual revenue mark this year, he also reflects on the challenge of managing a company that is growing as quickly as PeopleSoft. "The key challenge is retaining the culture we have," he says, citing the loyalty and enthusiasm of his workforce as something he would not sacrifice in striving for the best possible growth.

"Other companies would kill for the kind of commitment we have – and it is primarily due to the culture of the company."

Another key factor that Mr Duffield regards as crucial to success is having a global approach.

When PeopleSoft announced its PeopleSoft 7.5 enterprise application suite in late March, for example, the company made sure that it not only included support for global manufacturing and supply chain management, but also the European Economic and Monetary Union (Emu) and a European payroll application.

"As far as Emu goes, we decided to get on top of euro issues in a big hurry, 18 months ago," he says. "And given the fact that we are leading the charge [in this area of software], this will give our customers a competitive advantage when they are already euro-enabled."

He is also keenly aware that two of PeopleSoft's main competitors – Baan and SAP – are European companies and are thus already in the thick of dealing with the implications of the euro. To have any credibility in Europe, Mr Duffield appears to be aware that PeopleSoft needed to grasp this issue early and competently.

In terms of North American competitors, he seems less worried. He does not expect the world's largest personal computer software company – Microsoft – to want to enter PeopleSoft's end of the market because this sector "is not rapidly growing enough", and adds: "I see Microsoft for smaller companies with accounting packages and things that are shrink-wrapped – it is not in high customer support and the intensive corporate market we are today," he suggests. "IBM, however, has always been in this market – it is a competitor one day and a customer the next. It doesn't have a coherent applications strategy, which is no knock against IBM. I was at IBM for four and a half years – and other than PeopleSoft, it was the best company I ever worked for."

While he admits that customers may spend time looking at his competitors' products, Mr Duffield says they will rarely make a switch based solely on the purchase cost of the software, which starts at around $100,000. He says a typical contract size for a PeopleSoft installation is around $850,000.

In the enterprise software market, implementation and support costs are far more important than the actual price of the software itself, he says.

"Software costs are trivial compared to implementation costs," he says, suggesting that archrival SAP's software will generate $7 to $8 in consulting costs for every $1 on SAP software. He says that the figure for PeopleSoft applications is around $3 in consulting costs for every $1 spent on software.

As PeopleSoft moves to expand its enterprise software product portfolio, Mr Duffield says it is looking at acquisitions as a way of achieving that goal. "If time permits and we have sufficient bandwidth, we will build a new product ourselves," he says. "But if there is a critical 'time to market' issue – and the culture of company fits – we will tend to buy."

Mr Duffield adds that he is not concerned about anyone launching a bid to buy PeopleSoft. "We are doing too well [to be a takeover target] and are currently valued at around $10bn," he says. "And a hostile takeover really shouldn't happen in the software industry – all your assets are in the heads of your people – and if it gets to be hostile, then they aren't going to stay."

PeopleSoft's man at the top

Looking at his personal history, it is perhaps not surprising that David Duffield became the founder of PeopleSoft. In earlier years he worked with the mainframe computer sector at IBM as a marketing representative and systems engineer – and holds an MBA and a degree in electrical engineering from Cornell University. Thus, enterprise-wide systems were familiar to him from his earliest days in the industry.

Before founding PeopleSoft, Mr Duffield established two mainframe application software companies. More recently, he was president, chairman and chief product architect at Integral Systems, a California-based vendor of the first DB2-based human resources and accounting systems. Previously, Mr Duffield co-founded Information Associates, where he is credited with the development of systems for the higher education market.

Inset picture: David Duffield, founder of PeopleSoft. The main picture shows a mansion under construction – amid tight security – for the software millionaire in an upmarket community on Lake Tahoe's north shore, Nevada. AP

The rising cost of ERP implementation

Last year was another boom period for the enterprise resource planning (ERP) market with global revenues growing by more than 40 per cent to more than $6.2bn, according to figures prepared by Gartner Group, the independent US-based IT consultancy.

The key market drivers last year were year 2000 computer compliance, continued globalisation of business, increasing business change, and the European markets' adoption of the euro currency, says the Gartner research note.

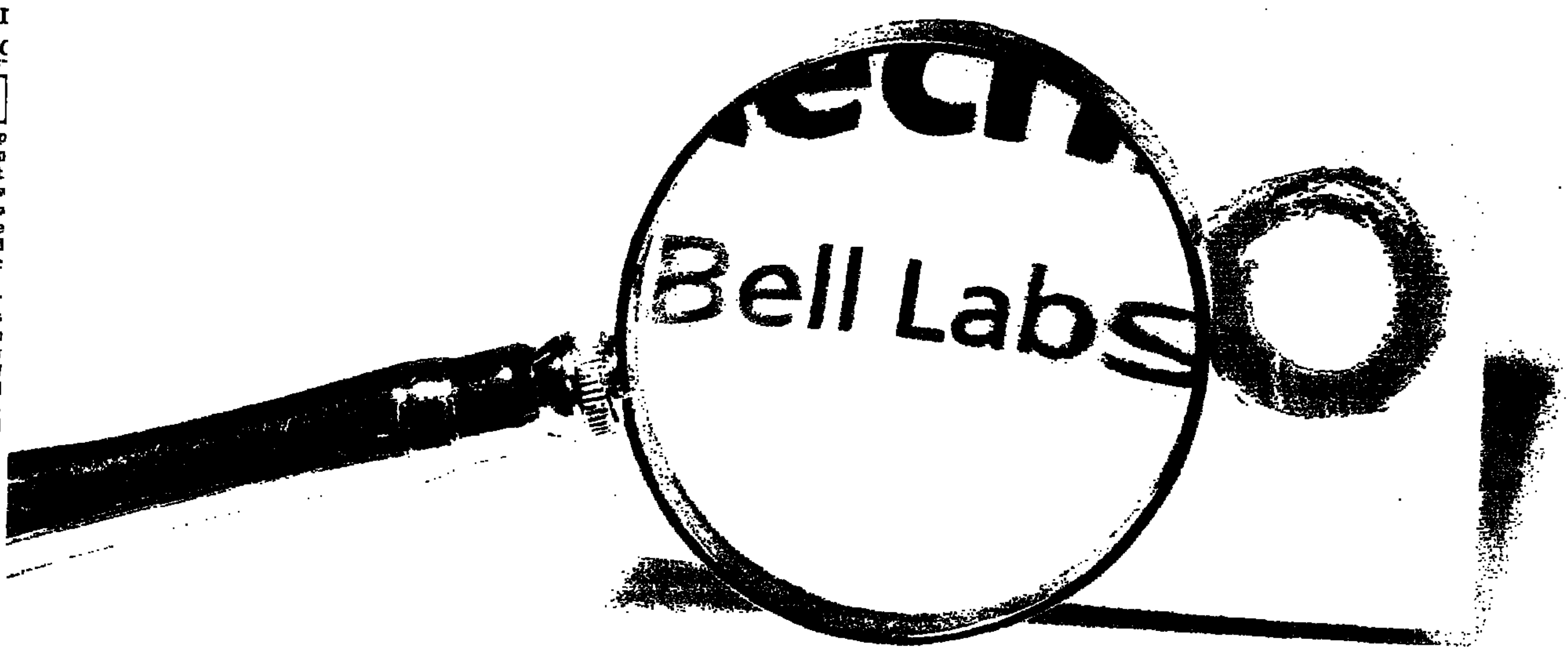
Demand for experienced staff

With a growing shortage of quality IT professionals to undertake ERP implementation projects, Gartner predicts that the average costs for ERP implementors will rise 30 per cent this year.

"Clearly, users must adopt staff retention strategies immediately," says the report. It also describes 1997 as a landmark year for vendors as extended ERP – or "eERP" for short – which became a new battleground, with Baan leading the way with its acquisitions of Aurum, Matrix, and Beologic. In response, SAP took a majority stake in K&V, a German-based sales force automation vendor.

These skirmishes may well result "in all-out war in eERP this year", says Gartner. Many of the financially weak vendors will fall further behind the leaders, due to their inability to fund mergers and acquisitions in the eERP area – such as supply chain management.

Paul Taylor



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Convenience factor is a vital impetus for growth

Multi-function smartcard terminals, with a high level of software security, will soon be incorporated into personal computers

World travellers burdened with their heavy and bulky notebook computers really won't need them in future – they may simply carry a smartcard.

Users will be able insert this card into any computer in an office, hotel room, aircraft or limousine. This will identify them and give them secure access over the Internet to their electronic mail and corporate intranet, as well as provide secure online transactions and other services.

These applications are just some of the ways in which smartcards – credit card-sized pieces of plastic with a computer processor inside – will change the lives of millions.

Smartcards' high level of hardware and software security make them ideal for safely carrying valuable information to identify the holder and even carry electronic cash and other "stored value".

This facility allows them to be used for secure identification for credit and debit card payments and cash *withdrawals, plus electronic* cash, access to computer networks, buildings and public transport, as well as carrying loyalty scheme points and medical records for emergency use.

Mr Andrew Phillips, an Analyst at Dataquest, estimates that there are 2.3bn cards currently in circulation. Two billion of these only carry memory chips and so have no security, and are mainly used as telephone and loyalty cards. "In future, the trend will be away from memory cards towards intelligent cards with a processor," says Mr Phillips.

These cards are mainly used by inserting them into a terminal, but contactless cards are now available that incorporate a small radio aerial.

They are more expensive to produce, but much easier for transportation applications, as they are quicker to use as they just need to be passed close to the terminal.

The first significant smartcard application was the French Cartes Bancaires payment card, which has reduced fraud from Ffr800m to Ffr250m over a period when the number of card holders has increased tenfold. Other large payment *applications are the German* GeldKarte, Spanish payment cards and the Belgian Proton electronic cash.

FT IT

New generation smartcards

Focus on emerging business applications

France is arranging smartcard access to its healthcare services, which will add 35m new users, says Mr Phillips.

Finland has the broadest range of application in real use of any country. Wherever there are suitable applications, they are being used, including payments, stored value, road tolls and car parking systems.

According to DataQuest, 1.1bn cards will be issued in 1998, growing at 30 per cent a year to 4.2bn in 2002. Although Europe has always dominated the market, growth in the Asia Pacific region *is leaping by 50 per* cent a year – *see report on payment systems, page 10.*

Meanwhile, a pilot project in New York City's lower Manhattan area is jointly testing Mondex and Visa-Cash, the two leading electronic cash systems. In spite of the wide interest in this project, the US has never embraced smartcard applications with the same enthusiasm as the Europeans.

Smartcards remain a curiosity in the US, says Ms *Karen Hoffman, an analyst* at Forrester Research, the independent analysts. "They lack of a business case, an infrastructure and interoperability, which will limit initiatives for the next five years. However, Internet applications, such as authentication, security and payment will develop in North America first."

According to a new report from Ovum, entitled *The balance of power – uncertainty and opportunity in the smartcard market*, control of the sector is moving away from card fabricators, such as Gemplus, Schlumberger and Bull, which have provided proprietary cards, operating systems, applications and services.

Divorcing the application from the card will allow multifunction cards, a market that will be led by software developers and others, whose applications will create the value.

Although smartcards have been in use for 20 years, we are only just hearing of alternative forms. Sun Microsystems favours embedding the processor in a stainless steel ring.

"Being 'wearable' has lots of advantages. I've even taken my Java ring into the shower and gone swimming with it," says Dr Glenn Ricart, chief technology officer of Novell. "It is more convenient to touch your Java ring to an access device than find the card in your wallet or handbag and replace it.

"In addition, I'd expect that women would find a Java ring helpful at times when they'd like to leave their purse elsewhere."

The Java ring uses contactless smartcard technology to touch it against a "blue dot" button on the terminal. The processor is much better protected by the stainless steel ring than the comparatively exposed plastic card.

The Java ring might also appear as a button built into a key chain fob.

IBM has an interesting variation. "The ring is a little too small," says Michael Weigelt, general manager of Global Smart Card Solutions. "You could put the processor into a watch and use a personal area network to transmit the data over the *surface of the skin and* through the hand into a terminal, so as to open doors or withdraw cash."

The Java ring: Scott McNealy, chairman of Sun Microsystems, displays a Java ring which contains an imbedded computer chip and functions like a smartcard AP

Evolution

Whilst smartcards remain in plastic card form, they will soon be fully integrated into the personal computer environment. Microsoft already supports smartcards in its Windows family of operating systems through a common Personal Computer/Smartcard ("PC/SC") standard.

Smartcard terminals will soon be incorporated into computers and can carry a logo to indicate that they are certified by Microsoft as being compatible with Windows NT 5.0, the next version of its corporate operating system.

Smartcards have been described as a technology looking for a solution, says John Bragg, a director of OSI, a management support company, who is programme director for the APACS trial. "However, they are not a technology issue any more. Convenience will be the key factor that will drive growth."

CONFLICTING STANDARDS • By Geoffrey Nairn

Rival camps will eventually need to work together

Competing systems aim to deliver 'interoperability' for a new generation of smartcards that can handle multiple applications

Conflicting standards have always been the Achille's heel of the smartcard industry, locking application developers to proprietary smartcard technologies and fragmenting the market.

With the growing maturity of the smartcard industry has come the realisation that the days of proprietary smartcard operating systems are over. Common standards are now needed to usher in a new generation of smartcards that can handle multiple applications, irrespective of the card manufacturer or the application developer.

The problem is that two competing standards have been proposed to deliver this much desired "interoperability". The first, Java Card, is backed by group of ten companies and is based on a cut-down version of Sun's Java programming language.

Java is already widely used to bring interoperability to commercial computing and the Java Card Forum hopes to do the same with smartcard applications. But the language runs poorly on existing smartcards. Peter Harverson, European head of Sun Microelectronics, predicts this will change with *a forthcoming* generation of smartcard chips designed to run Java in "native mode".

"It is essential to have a *native Java processor to* get the performance," he says.

The second interoperability contender is the Multos standard proposed by Maosco, a consortium of eight chipmakers and smartcard manufacturers with some, *such as* Motorola, also present in the Java Card Forum.

The first public trials of Multos cards should start later this year. According to Nick Habgood, chief executive of Maosco, Multos is a complete system comprising silicon chip, *operating* system and application programming interfaces (APIs), whereas the Java Card covers just the APIs.

He argues *that Java Card* issuers thus have the extra headache of verifying the security and interoperability of their chosen mix of silicon, operating system and application. Whatever the relative merits of the two standards, their emergence brings closer the day when developers can refocus on applications and largely forget about the underlying card technologies.

"The emergence of Java Card and Multos promises card-independent application development platforms," says Duncan Brown, senior analyst at the UK research firm Ovum and author of a recent report on smartcards. "These enable third-party suppliers and user organisations to develop their own smartcard applications without the direct involvement of card manufacturers."

Skeptics wonder whether there is a real demand for multifunctional smartcards. Virtually all the smartcards in use today perform just one function: loyalty card, telephone card or electronic purse, for example.

While the concept of a smartcard that allows users to add, delete and update applications is persuasive, the technology is expensive and interoperability depends on *a level of co-operation* that is hitherto unknown in the smartcard industry.

The traditional rivalry *between Visa and* MasterCard, the two principal issuers of credit and debit cards, is already well-entrenched in the *smartcard* market. Visa backs the Java Card standard, while Mondex, a company controlled by MasterCard, is behind Multos.

American Express, the third big player in the card industry, announced in April it would use Multos as *its "preferred"* smartcard operating system, although the licence is not exclusive.

For America Express, multifunctional smartcards provide *a convenient* method to dynamically deliver both financial and non-financial applications that could include hotel, airline and loyalty programmes, traditional charge or credit cards and electronic purse applications.

The card issuers will play a decisive role in the development of multifunctional smartcards because of their huge installed user-base.

Visa's 600m traditional cards generate $1 trillion in annual volume and are accepted at over 14m locations worldwide. It also has more than 70 chip card programs under way with 21m chip cards issued. Despite the growing number of trials, the card companies are reluctant to commit to smartcards in a big way until they see real benefits in doing so.

"The card issuers continue to wait on the smartcard sidelines," says a report from market analyst Forrester Research. Cost is a big hurdle. A magnetic-stripe card – the dominant technology for today's debit and credit cards – costs a few cents to manufacture while the 8-bit processor "core" used in a simple smartcard costs a couple of dollars.

The more powerful core needed for a multifunctional smartcard costs $5 or more. Maurizio Felici, general manager for smartcards with European chipmaker STMicroelectronics – formerly known as SGS Thomson – says multifunctional smartcards are more costly because of their significant design challenges.

Chipmakers have to squeeze a 16 or 32-bit processor and sufficient memory to hold eight or more applications into a 5mm by 5mm core – any larger and reliability *problems may occur if the* card is flexed.

STMicroelectronics is one of the participants in a pan-European research *project, called* Multi-Application Secure Smartcard (MASSC), aimed at developing advanced microelectronics for multifunctional cards.

The MASSC technology uses a 32-bit RISC processor with large memory and advanced cryptographic capabilities. It will support both contact-based and contactless operation. The first generation of cores will be available in mid-1999.

MASSC will also develop on-chip embedded software that allows the chip to download applications and provides security "firewalls" between the applications stored on the card.

STMicroelectronics currently sides with the *Java Card camp.* "The advantage of Java is that it is widely known, while Multos is quite specific and your programmers have to learn it," says Mr Felici.

Nevertheless, he believes the battle between the two standards is overplayed. "Multos is a very good technology – and in the future we will also have a Multos card."

Ideally, he would like to see two camps work on achieving interoperability between the Java Card and Multos standards. Forrester Research believes this could come next year.

NEW APPLICATIONS • By Rod Newing

Europe leads the way

Financial companies see smartcards as a way to strengthen client relationships

Smartcards are an important advance along the path of pay*ment card technology* – "we started with embossed cards, then magnetic stripe cards added more security and personalisation," says Jon Prideaux, *senior vice president*, emerging markets at Visa International.

"Next, smartcards will provide local computing power to give greater security and more functional opportunities."

In a competitive marketplace, the banks are looking for more competitive and convenient payment mechanisms, because customers want to be able to do more things, more conveniently. Magnetic stripes have effectively reached a "dead end", unable to add more services to keep the customer interested.

The problem is that currently the banks do not see a *sufficient business case to* justify the additional cost of a smartcard over a magnetic stripe card.

Other payment services *are needed to increase the* functionality and profitability, such as electronic cash and secure electronic commerce. A payment card *could also be amalgamated* with loyalty, information and security access cards.

More than 50m smartcards cards are already in use as bank cards, mainly in France, Germany and Spain. France had big problems from counterfeit cards, so the industry banded together through the Cartes Bancaires organisation to issue smartcards nationwide.

Fraud with smartcards is extremely difficult because of the in-built security and because they are too capital intensive to manufacture and manipulate. France now has the lowest fraud rates of any payment system in the world, says Mr Prideaux.

Deployment of smartcard-based payment cards is a problem, however, and there are two opposing strategies. Cards can be issued on a *wide scale with enhanced* functionality. Their existence is then used to encourage the merchants to use them. The opposite is to *grow clusters of cardholders* around merchants. These clusters could be based on a town, an individual merchant or an infrastructure, *such as a mall, motorway* service area network or the Internet.

US analyst Forrester Research believes that the Internet will provide the best means of deployment as it attracts early adopters who will welcome the security and convenience of smartcards for electronic commerce. Smartcards are starting to bridge the physical and online worlds "and taking off from 2000."

In Spain, cardholders are automatically issued with smartcard-based debit or credit card, as part of their normal replacement cycle.

They still have their embossing and magnetic stripes, but include e-cash functionality. E-cash is being tested in an increasingly large number of pilot projects around the world, principally in the *Mondex* system, in which Mastercard has a 51 per cent stake. Visa-Cash and Proton from Belgium, which has a partner*ship with American Express.*

For two years in the UK, the Association for Payment and Clearing Services has been leading the banking *industry, card schemes*, terminal manufacturers and retailers to prepare for the introduction of smartcards for credit and debit payments.

They are being tested in pilot projects in two towns and should a decision on individual banks national implementation is imminent. The UK has 104m bank-issued cards, plus another 15m store cards, making it potentially the largest smartcard application.

Smartcards will also be important for carrying digital certificates that allow their electronic cash or credit/debit payment functionality to be used for electronic trading, using the Secure

Turn to next page

US CASE STUDY: Bank of America • By Alan Stewart

New service for 600 corporate clients

Bank offers French-made customisable smartcards with encryption capabilities

Bank of America (BofA) has begun the roll-out of a new smartcard-based security and encryption process to more than 600 of its large *corporate clients in 1,000* sites worldwide. These are clients who use the bank's Wanda electronic services to transfer funds, initiate pay*ments and manage their* global accounts.

BofA is a subsidiary of San Francisco-based BankAmerica Corporation, currently the third largest bank holding company in the United States.

After its planned merger with NationsBank Corporation, subject to regulatory and shareholder approval, the new BankAmerica will have $570bn in assets, as well as the largest US networks of branches and automated teller machines, (ATMs).

Companies already using Wanda to access their cash management and foreign exchange accounts are being offered customisable smartcards with encryption and authentication capabilities, together with portable smartcard readers that can be inserted directly into a PC's diskette drive.

The bank says these two *components* form the "key" needed for access to a corporate client's account.

"Our corporate cash management division was looking for an alternative to the visible security device it was using," says Bette Wasserman, a Bank of America vice president and manager of smartcard programmes with BofA's interactive banking division.

"It had the choice of a physical device, software, or a smartcard," explains Ms Wasserman. "Only the smartcard could be independent of the platform the customer was using."

The card-readers (along with the cards themselves) are made by French smartcard manufacturer Schlumberger, and contain no computer applications or intelligence – "that's in the software," says Ms Wasserman. "There's an applet on the PC that will interact with the reader and the card within it."

In addition to the new Wanda smartcard system, since the middle of 1997, Bank of America has been running a smartcard programme with Visa to accept micro-payments over the Internet. Employees of the two companies can use a stored-value smartcard with the Visa Cash service introduced for small-value payments two years ago.

This has been taken a step further at the bank's headquarters in San Francisco, where photo identification smartcards containing two microchips have been issued to all staff. One chip is used for Visa Cash as well as access to the cardholder's PC and encrypted data files, while the other provides contactless entry to the building and to parking areas.

"I believe we were the first to combine the payment mechanism with other functions," says Ms Wasserman, who states that Bank of America was also first on the Internet with a stored-value smartcard. The value is loaded into the card from an ordinary debit or credit card via ATM-like devices.

Ms Wasserman expects that a wide variety of devices will be used to store value in smartcards in the future, including telephones, PCs and television sets. She believes consumers need an incentive to change their behaviour, however, and that part of that incentive is convenience.

"If I could load value at home, then I would probably do so," she adds.

Ms Wasserman points out that she can also buy goods on the Internet from home – and she could easily keep adding money and spending. "I would be more likely to spend money over the Internet if I didn't have to wait to go down the street to the ATM the next day."

The bank has found that smartcard users want to be able to use their card wherever they go, to replace cash. "We need to make the card more convenient for consumers to use and more acceptable to merchants," says Ms Wasserman.

She believes the smartcard industry still has a good deal of work to do in this area, and that the cards will not be widely used for a few years yet.

Providing continuing support for its smartcard programmes has been an important factor for the bank, she adds. "It doesn't take a lot of time and effort, but it pays off in the results.

"We have a very high usage rate, and the merchants are very happy with the volume they get."

Bank of America has *found it much easier to con*vince merchants in the online world of the benefits of the stored-cash card. This is because the card is not replacing a well-established payment mechanism, even though many Internet users are already making purchases online using their credit cards.

According to Ms Wasserman, Internet merchants see a clear need for stored-cash cards. In the Internet world, she points out, many merchants are currently either giving services away, or being charged credit card fees for very small transactions. She is confident that because the Internet is still relatively new, online purchasers are willing to experiment with innovations.

Bank of America's smartcard schemes are not pilots but permanent programmes. "Our basic strategy for being involved with chipcards is that we see them as a way to enhance our business," says Ms Wasserman, who expects to see smartcard technology being used in many ways in *the US banking business* in the next three to five years.

The bank expects that, over time, smartcards will be integrated into various other products and services that it offers. "At some point, there will be a chip on a debit card, or credit card, or even a new kind of card that we come up with," hints Ms Wasserman, but emphasises that the bank has no particular product planned for the near future.

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COMPETITION: *Closing date is July 31, 1998*

Already a record number of high quality entries

Once again the FT Business Web Site of the Year competition is attracting high quality entries, with even more contenders this year than last, at this point.

The competition – now in its second year – has already attracted entries across the entire range of business markets in the four competition categories:

- ☐ The financial sector.
- ☐ Large organisations (excluding the financial sector).
- ☐ Small and medium organisations (fewer than 250 employees).
- ☐ The public sector.

"Last year's competition saw a huge number of entries arriving close to the July 31 closing date, so candidates this year are urged to send their entries in as soon as possible," say the organisers.

The competition is sponsored by UUNET UK, part of the world's leading Internet services company and a wholly owned subsidiary of WorldCom. Web site entries will be judged by a distinguished panel from UUNET UK and the Financial Times. Category winners will receive their awards in November.

"The quality of the entries we have received is consistently high," says Richard Woods of UUNET UK. "Once again it demonstrates the way in which the Internet and web sites are being ever more closely tied into the core of traditional business activity as well as being used to entirely re-engineer some commercial processes."

Last year's competition attracted entries from all over the world including Germany, South Africa, the United States, and former Soviet Socialist Republic of Kazakhstan. Those who won awards attended a special event at the Financial Times' London headquarters, with awards presented by the TV presenter, Jeremy Paxman.

A similar awards night will be held in November this year.

The closing date for entries is July 31, 1998.

To submit your company web site for the competition and for full details of the terms and conditions visit: *http://www.uk.uu.net/* or telephone Lysa Ratliff on 01223 250 548 (callers from outside the UK should dial +44 (0) 1223 250 548).

What the judges are looking for

The aim of the 1998 FT business web site competition is to recognise excellent business use of the World Wide Web.

Entrants are judged on their ability to demonstrate:

☐ **Business transformation:** To what extent has the web site enhanced business processes in areas such as customer services, communications or strategic direction?

☐ **Innovation:** The appropriate use of new technologies, such as intranets and intelligent software tools.

☐ **Measurable benefits:** The ability to demonstrate financial and/or other quantitative benefits arising from use of the web site.

Sponsored by UUNET UK

Entries must fall into one of the four categories listed above (i.e. financial, large organisations, small and medium-sized organisations and the public sector).

A prize-winner will be chosen in each category and an overall winner will be awarded the prestigious title of the "FT Business Web Site of 1998".

A full list of previous award-winning sites can be found on the Web at *http://www.uk.uu.net/*

The competition's terms and conditions include the following:

☐ *The event is open to companies or organisations both in and outside the UK, in the categories listed.*

☐ *Entrants' web sites must have been established before January 1, 1998.*

☐ *Any claims must be capable of being substantiated if shortlisted. Finalists may be required to make a web site presentation to the judging panel, either in person or by video conference, in September 1998.*

☐ *There will be no cash alternatives to prizes. Electronic entry forms and a full list of the conditions is available on the competition web site at: http://www.uk.uu.net/*

SUPPLIER'S VIEWPOINT • By Maurizio Felici

An era of networked electronic cash

The stage is set for one of the most important paradigm shifts of our times – from pockets full of printed paper to new online cash systems

The smartcard is the answer to the twin needs of real portability and security, qualities that are often seen as being incompatible.

In recent years, advances in the semiconductor chip technology have enabled astonishing progress in portable computing and information highways – for example, the Internet – but the extreme openness of these new tools, while greatly enhancing their versatility and user appeal, means that special safeguards are required to ensure that confidentiality and security are not compromised.

This is why, for example, so much effort has been applied to issues such as the security of electronic commerce. In fact, the smartcard is nothing other than a very small portable computer, with its own intelligence (the microcomputer core), memory and software operating system, allowing it to store and process data and programs.

However, unlike conventional PCs, every smartcard transaction can be checked and authorised via security mechanisms that can range from PIN codes to highly sophisticated biometric characteristics of the card owner, such as fingerprints or iris patterns. The control mechanisms operate between the keyboard or card detector and the smartcard's internal memory, ensuring that data is securely stored.

The "heart" of the smartcard is, of course, the embedded chip. STMicroelectronics, as a world leader in this sector, believes that the success of the smartcard will mainly depend on the ability of semiconductor suppliers to make continuous advances in three key areas:

☐ Security, so that the smartcard industry can maintain a constant gap with respect to hackers, who, of course, will continue to develop more sophisticated ways to attack.

☐ Technology, allowing chip performance to be continually increased thereby enabling a continual flow of new and even more powerful applications.

☐ Manufacturing, to drive the costs down, allowing consumers to enjoy the advantages of smartcards in the ever-expanding field of applications.

One of the best established examples of smartcard implementation is the the French bank card. In France, where the smart bank card was first used on a large scale, the bank card fraud rate, as a percentage of the total transaction value, is currently 0.02 per cent (on a total transaction value of FFr956bn), a dramatic reduction from the 1987 level of 0.27 per cent.

Over the same period, the fraud rate in the UK was reduced down to 0.10 per cent, which is still five times higher than in France. Not surprisingly, British banks are now planning to adopt smartcards to make further improvements.

In the wide palette of smartcard applications (bank cards, security modules for portable phones, pay-TV, ID cards), the "electronic purse" is emerging very rapidly as a significant application. Secure microcomputer-based smartcards will increasingly replace the less-secure and less-practical paper money, allowing purse "reloadability" at bank terminals and purse-to-purse money transfer.

The electronic purse is most suitable for low-value transactions and will certainly simplify the quite cumbersome calculations that many Europeans will experience in the era of the euro by giving immediate equivalence among different currencies having a fixed exchange rate.

With the cost of cash-handling accounting for up to 40 per cent of a bank's operating costs and five per cent of a country's GNP, there are substantial savings to be made by switching to smartcards.

The longer-term trend is to multifunction cards. Thanks to the processing power and large memory capacity of the latest smartcard chips, it is possible for one card to combine several different functions such as phone card, banking card, electronic purse, railway ticket and loyalty card.

To provide such flexibility without compromising security, smartcards will use a similar approach to that employed in web browsing, where specialised programs called "applets" are downloaded as required and run from within operating systems and web browsers. The smartcard's secure operating system will be embedded in the chip's read-only memory, while applets will be stored in the card's read/write memory. Smartcard chips that will run Java, the standard programming language for applets, are already in development at STMicroelectronics and other semiconductor companies.

This approach will allow a single card to have many functions during its life because it will be possible, through telephone data transfers, to update an existing application, to load a new one or to delete an obsolete application.

Shopping in New York: Yifat Mabary uses a smartcard to make purchases at the *Royale Kosher Bakery* during a six-month smartcard trial in the city's Upper West Side AP

The ability of the chip to carry out highly complex cryptographic algorithms will ensure security through the use of "electronic signatures" when using standard information networks such as the telephone or the Internet.

Another dimension of the development of smartcards is geographic. We are now going through an advanced globalisation process in Europe, while Asian countries are starting and the US is in the pre-boom phase.

In the developed countries, there is a strong interest in new applications opened up by the presence of the chip in the card, as well as an appreciation of the economic advantage due to fraud reduction and better overall efficiency in applications currently covered by magnetic cards.

In the developing countries, the smartcard is seen as an invaluable tool.

By adopting smartcard technology at an early state, these countries can participate in exciting developments such as electronic commerce, often with the benefit of being able to achieve a direct implementation of the most advanced technologies instead of a slow evolution.

Worldwide, the stage is set for one of the most important paradigm shifts of the times – from pockets full of printed paper to networked electronic money. All the elements are in place: the technology, the security, the clear practical and economic benefits of smartcards.

From all the trials that are now taking place, it is clear that there is a growing consumer willingness to accept this change and, with the European Parliament scheduled to debate the introduction of a euro smartcard, it seems that the political will is also in place.

☐ *Maurizio Felici is the general manager of the smartcards business unit at STMicroelectronics.*

Smartcards can store value and keep track of how much money is deposited and spent AP

SMARTCARDS

Strategic issue for banks

From previous page:

Electronic Transaction standard, from any computing device into which it is inserted. They will also be able to give the card-holder access to their online banking service from any computing device.

Europe is leading the world in the adoption of smartcards for all purposes, not just for payment systems, but Ian Duffy, worldwide manager for payments Systems at Motorola, who manufacture smartcards, has a warning that "fraud will always migrate to the least secure environment."

Meanwhile, many observers in the US think that smartcards are largely unnecessary, because they have an online system and low communications costs, but there is a danger that this will attract fraud that is prevented elsewhere.

The cost of cards is not the only issue – the banks have a strategic need to introduce smartcards, says Mr Duffy. "If the banks had waited for a business case for the automated teller machine (ATM), there wouldn't be a payment card industry today. People need a banker, but they don't need their buildings.

"The ATM was introduced as a convenience, but it has become an inconvenience. Customers now want to get cash through their telephone or computer."

It is the ability of the smartcard to store information securely that makes it so functional. "Financial institutions see the potential of the smartcard to get closer to their customers," says Mr Michael Weigelt, worldwide general manager of smartcard solutions at IBM.

"They have pushed people out from their 'temples of banking' to the ATM and telephones. The smartcard can help companies 'build relationship' and loyalty to get back into the mind of customers."

Smartcard functionality "could be as good as the notebook computer today and give access to the entire world population," he adds.

Jon Harbour, a senior consultant with Sema Group agrees: "The banks are under threat from new entrants such as Sainsbury's, Tesco and Virgin. They approach banking products with a customer, service, and value-add mind set, rather than the traditional 'product focused' bank approach, which is giving them inroads into the market. They represent a serious threat to the banks over the coming years."

The banks must respond by releasing innovative products that consumers want, and improving service levels, adds Mr Harbour. "Smartcards offer the potential to deliver such products and will be useful to fight off the new entrants. However, to justify the migration to smartcards will require the banks to adapt their other financial products to embrace smartcards."

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Indian success is a model for the region

The growth of India's software industries has fired the enthusiasm of neighbouring states such as Sri Lanka, Nepal, Pakistan and Bangladesh. **Paul Taylor** reports

India is emerging as the centre of a South Asian regional hub for offshore software design and development work – and looks set to become an important part of the emerging global IT infrastructure.

Over the past decade, India itself has been transformed into one of the main centres for software development work, boosted by domestic deregulation, entrepreneurial flair and the soaring global demand for low-cost, high-quality software and services.

Today, in cities such as Bangalore, Bombay, Delhi and Madras as well as emerging centers such as Pune and Hyderabad, the leading US and European IT groups jostle to hire the brightest of India's best engineers emerging each year from the country's premier universities and technology institutes.

Now, flush with this renewed confidence, India's leading indigenous software companies are poised to take the next step towards becoming an important force in the global software and services industry in their own right.

The growth of the Indian software industry since the late 1980s has been a remarkable success and has proved that, given the right framework, India can compete globally. As Ajay Malpani, an analyst with Bombay-based Caspian Securities notes: "The software industry has emerged as India's only globally competitive modern industry."

This in turn has caught the attention of India's regional neighbours and fired the imagination of local entrepreneurs who see the potential for replicating India's success. In Sri Lanka, for example, the government has eliminated import duties on IT hardware and software and offers incentives such as tax holidays to software start-ups.

"India is considered a role model," says Dewang Mehta, executive director of India's Delhi-based National Association of Software and Services Companies (Nasscom) and an enthusiastic supporter of regional software development.

"I think we have now made our mark in the world, and we have reached a position of strength. It is our duty and responsibility to share our experiences with our neighbours and then let them develop on their own," he said.

Mr Mehta has already been called upon by government bodies and emerging trade associations in several neighbouring countries to advise them on the steps needed to help develop local industry.

Most of India's neighbours have also been examining their educational and training systems with a view to expanding the awareness of IT and, more specifically, boosting the numbers of available IT professionals.

Some, including Nepal, have also enacted tough new intellectual property and copyright laws aimed at deterring software piracy and easing the concerns of would-be investors. In Nepal, for example, the government passed new anti-piracy laws on the eve of the hand-over of Hong Kong after industry executives had warned that Nepal could face a flood of displaced pirates.

It is still early days for most of India's neighbours, but already, a few pioneers have set up software businesses in Sri Lanka, Pakistan and Bangladesh in particular seeking to emulate the success of their Indian counterparts. The degree to which they succeed will depend upon a wide range of factors – many that have affected growth in India.

However, there is little doubt that the demand exists. One of the main reasons for India's software success is that, faced with a growing shortage of software engineers in the west, hundreds of companies have turned to India's computer software and services companies for the IT skills they need to maintain and enhance their competitiveness.

This skills shortage has been exacerbated by the Year 2000 computer date problem and the imminent launch of the euro in Europe – both requiring massive conversion programes in order to make existing IT systems and software compliant.

Meanwhile, many leading American IT companies have become big direct employers of Indian software professionals – for example, about 10 per cent of Microsoft's 20,000 worldwide workforce is Indian. Other IT companies including market leaders such as Texas Instruments, Motorola and Oracle have established "captive" research and development centres in India.

Indian software exports compete not just in terms of price, but on the basis of quality, innovation and technical expertise

Among the most recent companies to set up research and development facilities in India are Microsoft itself, and Baan, the Netherlands-based Enterprise Resource Planning software group, which have both set up new operations in Hyderabad. Meanwhile, Cisco, the US-based networking equipment market leader, has formed a partnership with HCL, India's leading domestic IT group, and set up a new software development facility in Madras.

Many other US and European companies, including those in the financial services, manufacturing and utilities sectors, have begun to outsource their IT work to Indian companies offshore. These outsourcing contracts range from code maintenance and migration work through to designing and building new customised applications using the latest technologies and techniques.

Most leading Indian software companies have already forged strong partnerships with their overseas and domestic customers. Many, such as Bombay-based Mastek, Infosys in Bangalore and Madras-based Pentafore Software, have set up software "factories" in several Indian cities to tap the local labour markets and have established sales offices and subsidiaries in the US and Europe.

Some are now preparing to seek listings for their overseas subsidiaries in New York or London.

For example, HCL now has operations in 18 countries and plans a Nasdaq flotation later this year to raise funds for overseas acquisitions as part of a strategic plan to turn the group into a $1bn software and services company serving global clients.

"There are very few companies who can offer these services globally," says Shiv Nadar, HCL's chairman.

Other Indian entrepreneurs have established computer services companies overseas, for example companies such as US-based Mastech and UK-based Gulf Computers have grown rapidly by offering managed offshore services to their western clients.

Such moves reflect the maturing of the Indian software industry and the growing confidence of its leading entrepreneurs that, even though Indian software exports still account for only a small fraction of the global $300bn-$400bn software market, they can compete not just in terms of price, but on the basis of quality, innovation and technical expertise.

Companies such as Datamatics, HCL, Tata Consultancy Services, Wipro and Infosys Technologies believe they can compete on equal terms with the best product designers, project managers and software developers in the world.

Today, Indian software companies sell their services to an expanding international customer list which includes Japanese, South Korean and south-east Asian clients as well as those from north America and Europe, on the basis of quality, speed and reliability, innovation and skills – as well as price.

That this should have been achieved in a developing country still struggling with a wide range of infrastructure problems and other obstacles is a remarkable achievement and testament to the determination of the architects of India's software success story.

"We feel very proud of our country and what the industry has achieved," says Pradeep Gupta, in charge of International Data Corporation's New Delhi office.

Reflecting this, India's software development industry grew by 50 per cent last year to $2.7bn including $1.75bn of exports. Just six years ago, industry shipments totalled less than $400m, according to Nasscom.

Between 1991-92 and 1996-97, the Indian industry which now comprises more than 730 companies, grew at a compound rate of almost 53 per cent, much faster than the worldwide industry as a whole. It now employs at least 160,000 people in India (a further 100,000 Indian software engineers work overseas).

India's success and its ability to outshine rival offshore software development centres including China, the Philippines and eastern Europe – at least for the time being – reflects a number of factors.

Its geographic position has given the sub-continent a time zone advantage with both Europe and the US, enabling local companies to exploit the rapidly expanding international market for outsourced software services including "remote maintenance". Indian software engineers can fix bugs or upgrade systems overnight while their users in western companies sleep.

The region also has a huge pool of relatively low-cost, technically qualified and English-speaking software professionals. In India, this pool of high skilled, ambitious but low-cost manpower has helped underpin the rapid growth of the industry – and particularly exports.

An entry-level software programmer in India can expect to earn about Rs150,000 ($3,550) to start with, rising to about Rs1m (about $23,700) after 10 years – still low by international standards, but a respectable salary in Indian terms. As competition grows for the best graduates and engineers with experience, salaries are rising rapidly and attrition rates – the main problem for the industry – remain high.

Offsetting wage inflation, Nasscom calculates that productivity is also rising rapidly, from about $21,000 per engineer in 1992 to $45,000 by 1996. As a result, India is still very cost-competitive.

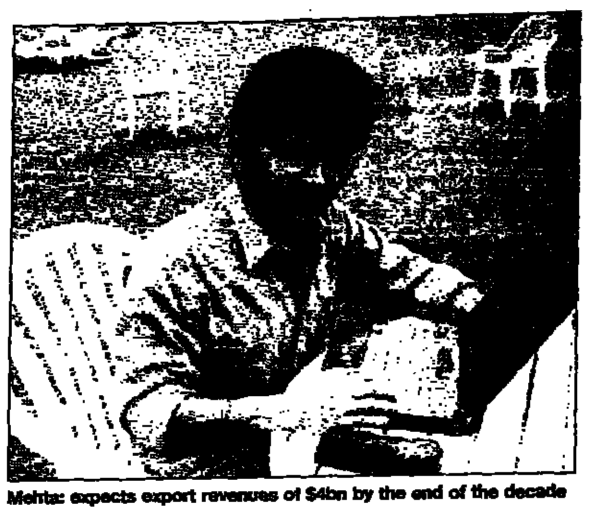
Nevertheless, most industry leaders acknowledge that India will face greater competition from even lower cost countries such as China. Reflecting this, many Indian software developers have begun to move up the software value-added chain, investing in research and building software components or complete packages.

For these companies – and the young start-ups elsewhere in the region – the future still looks bright.

REGIONAL FOCUS: INDIA • By Paul Taylor

Big foreign exchange earner

India's software export sector has enjoyed remarkable success since the mid-1980s



Mehta: expects export revenues of $4bn by the end of the decade

Driven by the demands of offshore clients for low-cost, high-quality products and services, India's software exporters have created one of the most dynamic sectors of the Indian economy and the engine of an emerging IT industry.

India's software exports have also become an important foreign exchange earner, a valuable source of new professional jobs and the model for success after the economic liberalisation set in train in the early 1990s.

Today, India's leading software developers undertake work for many of Silicon Valley's biggest IT companies as well as a growing number of US, European and Asian multinationals who rely on Indian contractors to undertake development, maintenance and conversion work.

India's software entrepreneurs have also begun to move up the value chain, winning contracts to do offshore development work, designing products and investing in research and development to create intellectual property.

For example, Madras-based Future Software is building highly sophisticated communications and networking components used by other software companies around the world in their own products.

"We (the Indian software industry) need to put more money into research and development," says K V Ramani, chairman of Future.

In another indication of the growing status of Indian software companies, New Delhi-based IIS Infotech was acquired by FI Group, the UK-based computer services group, for £25m in December.

Several other Indian IT groups including Delhi-based HCL and Bangalore-based Infosys Technologies, are poised to tap foreign equity markets reflecting their growing confidence and global growth ambitions.

Meanwhile, Microsoft and Baan, the Netherlands-based software group, are both building new software development facilities in Hyderabad – India's fastest-growing IT centre. Baan, which plans to undertake almost half its worldwide R&D at its new Indian facility, has already employed 350 software engineers, a figure the group expects to increase to 1,200 by year-end.

Even India's current political and economic problems have failed to unsettle the industry although the domestic IT sector is not growing as fast as expected and there are concerns about the possible impact of economic sanctions imposed after the recent nuclear tests, and delays in raising US visa quotas for Indian software professionals.

But despite these doubts, most Indian software entrepreneurs insist it is "business as usual." As Dewang Mehta, executive director of the National Association of Software and Services Companies (Nasscom) notes, all the main Indian political parties have acknowledged the importance of the IT sector.

This was underlined by the inclusion of IT in the current administration's five-point agenda, the exemption of the sector from the recently imposed special duties, and the formation of the National Task Force for IT and Software Development which is due to produce a final report and draft national IT policy by the end of next month.

Even the domestic IT sector is beginning to grow despite tight credit conditions. "The corporate PC market grew by 3 or 4 per cent last year but there is tremendous growth in the home market," says Pradeep Gupta, in charge of market analysts International Data Corporation's New Delhi office. He estimates that home PC sales now account for a fifth of the total.

Overall, PC sales grew to 800,000 in 1997-98 from 600,000 a year earlier, according to the Delhi-based manufacturers' Association for Information Technology (Mait). HCL and Wipro lead domestic PC sales, although they face a growing challenge from leading imported brands including Compaq Computer, the world's largest PC maker.

However it is the remarkable success of the Indian software export sector since the mid-1980s which has captured most attention. According to annual figures prepared by Nasscom, India's software exports jumped from $1.1bn to $1.75bn in the year to March 31, pushing the overall value of India's IT sector including domestic software and hardware sales to more than $5bn.

Mr Mehta expects export revenues to be worth $2.7bn in the current year and to reach $4bn by the end of the decade. Overall, software exports have been growing by more than 55 per cent annually over the past five years and the pace of growth shows no signs of slackening.

According to the Nasscom, there are more than 550 companies in India involved in software exports (another 180 small companies collectively account for revenues of less than Rs100m). They are a diverse mixture of new start-ups, joint venture companies, foreign implants and spin-offs from some of India's oldest and most well-established industrial groups.

Together, these companies employ about 200,000 software engineers – the second or third largest group of software professionals in the world, depending upon Russia's ranking.

As the Indian industry begins to mature, a clear top tier is beginning to emerge among the country's indigenous software development companies. The top 20 exporters, which include companies such as Tata Consultancy Services, Wipro Infotech, NIIT, Pentafour and Infosys Technologies, now account for about 60 per cent of total exports.

"The Indian software industry has been built on low-cost labour," says Mr Gupta. Most recently, he notes, there has been a lot of offshore contract work for companies wanting to overcome their Year 2000 computer problems, or to migrate software from one platform to another.

Most Indian software exporters still undertake contract work for their overseas clients. However, as customer confidence has grown the proportion of work undertaken for clients on-site has fallen from more than 90 per cent at the start of the decade to less than 60 per cent today.

Most of the larger Indian companies are also expanding their international presence, setting up offices in the US, Europe and Asia. The immediate objective of overseas offices is to win new business and build closer relationships with offshore clients. But Indian companies also see these offices as further step towards their eventual goal – to become fully-fledged members of the global software industry.

REGIONAL FOCUS: PAKISTAN • By Farhan Bokhari in Karachi

Programmed for improvement

The government is backing the sector, which has still to resolve key problems

Pakistan's decision to remove a 35 per cent import duty on CD-Roms in its June budget, was a relief to Jehan Ara, a co-owner of Karachi's Enabling Technologies software house.

Her company had battled against some of the last vestiges of bureaucratic controls that continue to haunt many of Pakistan's emerging software businesses.

Despite last year's wide-ranging incentives, such as a seven-year tax break for software exporting companies, problems have persisted.

For instance, a contract given to Enabling Technologies to produce thousands of CD-Roms displaying some of Pakistan's best known artwork ran in to trouble when the country's customs authorities ruled that they could not be exempted from import duties. "We were told that the incentives by the government to remove duties applied to the actual software ... and not the actual disk itself," says Jehan Ara.

Other recent relaxations include the removal of a 10 per cent import duty on computers.

Changes in the budget have removed some of the last obstacles to the industry's outlook, already bolstered by earlier incentives.

Last year, for example, Pakistan also allowed all software companies to qualify for export refinancing from the country's commercial banks, in addition to tax and duty changes.

Pakistan's software industry, still in its infancy compared to that India, has a long way to go. Although no consolidated figures are available, industry estimates suggest that software worth between $25m-$30m was exported by the country's 55 software houses in the past 12 months, a tiny fraction of India's exports of $1bn.

But the country boasts strengths such as the availability of cheap labour which, according to some estimates, costs a fifth of that in the west, and a conducive policy environment.

As Anwar Rodney Rahman, secretary of Pakistan Software Houses Association (Pasha) explains: "I don't think any industry has as much support from the government as the software sector."

Prime minister Nawaz Sharif's government, under pressure from western economic sanctions after Pakistan's first nuclear tests on May 28, says it plans to boost exports in the next 12 months to meet the country's increasing foreign debt obligations.

Traditionally, almost 60 per cent of export earnings have come from cotton products which are highly sensitive to seasonal trends.

The government sees software as a means of earning valuable foreign exchange.

The country's economy is still suffering from the effects of last year's recession. Some analysts say domestic demand for software may not grow as fast as the potential for exports, especially after the recent public sector austerity measures announced in the budget.

Mr Adnan Kiledar, manager of operations and marketing at Karachi's Atlas Information Technology says: "In the domestic market, pressures would grow and public and private sector spendings may suffer.

"We have to focus on the export market to grow fast."

But to make the transition, Pakistan needs to tackle some key problems, notably the shortage of trained programmers and its international marketing capability.

Compared with India's estimates of more than 50,000 programmers who graduate every year, Pakistan produces only 5,000 programmers.

But many see a change in trends. According to Pasha estimates, in the past year at least 22 new training programmes have been launched across the country. The association estimates that the number of graduates may double next year and exports could rise to US$50m.

Mr Rahman is convinced that business prospects will improve, with export opportunities linked to issues such as tackling the year 2000 bug and beyond. He says Pakistan's best bet lies in not just concentrating on the US but in paying more attention to the Far East and the Middle East.

Others argue that unlike India, which has strong marketing networks to offer its products worldwide, Pakistan needs to promote its software overseas more aggressively.

While Jehan Ara wants to see the government do more to promote Pakistani software, her advice to other businesses is simple. "Just a couple of trips overseas proves that people are willing to give you business.

"All it takes is to go to the right conference, make the right contacts and present the right prototypes."

REGIONAL FOCUS: SRI LANKA • By Paul Taylor

Sector poised for lift-off

IT may be used to build the foundations of a prosperous new economy

Sri Lanka's embryonic information technology and software development sector is poised for lift-off. Already, a handful of domestic software development companies in Colombo, the capital, have begun operations and the first foreign investors have begun to arrive.

The growth of the sector might have been faster had it not been for the relative shortage of skilled IT professionals – something that government, academics and industry are now addressing – and the debilitating effects of the bloody ethnic conflict waged by the Liberation Tigers of Tamil Eelam (LTTE) for a Tamil "homeland" which has claimed more than 50,000 lives over the past 15 years.

But despite this there is growing confidence in government and among industry executives that Sri Lanka, which also has many advantages including a high quality English-speaking workforce and sophisticated telecommunications infrastructure, can emulate the success of its giant neighbour to the north – India.

"We believe we can make IT a strategic industry for Sri Lanka," says Professor V K Samaranyake, chairman of the Council for Information Technology and the visionary behind the nation's IT dream.

Other academics have also helped shape the birth of the Sri Lanka IT industry, among them, S Dharmavasam, a University College of London academic and managing director of Kingslake Engineering Systems, which was set up in 1993 and is one of the country's pioneering software development and computer services group.

Kingslake, which also operates a UK-based consulting and project management business for international software development projects, is mainly focused on the Sri Lanka domestic IT market where it provides consulting, systems integration and training services based around a core set of imported software packages and products including Symix, an enterprise resource planning package used widely by manufacturers in Sri Lanka, and Psion's machines.

"We set up here to introduce new technology to Sri Lanka," Mr Dharmavasam says.

Today, Kingslake employs 50 people in the country and expects to double its size this year partly by boosting its offshore business. "If we had to depend on just the local market it would constrain our growth," says Mr Dharmavasam. "We have to think of ourselves as a global player but I also think it is crucial to be in the local market."

Aside from the relatively low wage costs – a graduate recruit will typically be paid about $500 a month – Sri Lanka's environment, infrastructure and deregulated economy are also attractions. The country has three competing telecoms groups, four cellular network operators and 10 Internet service providers serving a population of just 18.5m.

Nevertheless, local software developers acknowledge that there are still problems. "We don't have the credibility yet that India has," says Chris Parakrama of BC Computers, another leading domestic IT group. As a result, less than 10 per cent of the group's revenues are derived from overseas. But other companies such as DMS Software Engineering are trying to boost exports.

"This year, 50 per cent of our revenues will be external," says K Ramathas, general manager of DMS which is targeting the Middle East market in particular.

Similarly, Millennium, a high profile local start-up backed by venture capital funds has designed and installed a state-of-the-art trading system for the Colombo Stock Exchange and has sold the same system to exchanges in Croatia and Mauritius.

Infomatics, which was founded in 1983 and is one of the oldest IT groups in the country, has taken another approach. Aside from its extensive domestic systems integration and training operations – Infomatics' Institute of Computer Studies is linked with Manchester Metropolitan University in the UK – the group has also set up a 50:50 joint venture with IFS, the Swedish technology group.

Industrial and Financial Systems has been set up as an export-only software developer providing services to customers in 20 overseas countries. "Our objective is to grow that business to 500 programmers," says Gamini Wickramasinghe, Infomatics' managing director. "We are looking for other joint venture opportunities."

Sri Lanka has also begun to attract direct foreign investment in the software development industry. For example, Datika International, a Belgium IT specialist and part of the Mitska Group, set up Ecode Lanka Software four years ago.

Prof V K Samaranyake: 'We believe we can make IT a strategic industry for Sri Lanka'

"We foresaw the increasing demand for software development in Europe due to the Year 2000 problem and the introduction of the European single currency system," says John Brillon, managing director.

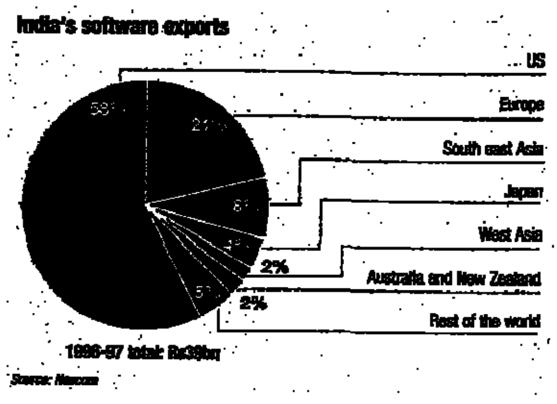
Other foreign investors include JBA Holdings, the UK-based business software group, which acquired a software development business in Colombo last year and plans to grow this to include 300 people over the next three years.

If Sri Lanka's IT strategy is successful, these could be the first of an India-style flood of foreign investments. This year has been declared Sri Lanka's "Year of IT" and the government clearly hopes that if it can finally secure a lasting peace, it can then use IT to build the foundations of a prosperous new economy.

IMPACT OF THE INTERNET • By Nitin Raiyaguru

More widely available

The region has been able to overcome early disadvantages in marketing



Academic communities in South Asia have had access to the Internet for many years but the growth of private Independent Service Providers is making it more widely available to the public and small businesses.

India and Pakistan have been offering connections to the Internet since 1992-1993, and they have recently been joined by Sri Lanka and Bangladesh. The widespread provision of free e-mail addresses means that anybody with access to the web is now able to communicate with the world.

As usage grows, it is becoming clear that the Internet is starting to provide many benefits to the region, as well as the west.

One of the main advantages to the west is that small and medium-sized enterprises are given ease of access to offshore software development.

In the early days to use the region's software development industry western companies had to have dedicated point-to-point communications links.

The annual costs of nearly $100,000 for a dedicated line meant that the benefits of outsourcing abroad could only be gained by big organisations with substantial projects.

The Internet's advantages in communicating cheaply across international boundaries and the shift in business IT towards client-server architecture has led to the appearance of smaller specialist companies, many of whom are specialising in small projects.

One such company, Rave Technologies based in the UK and India, was formed four years ago to focus primarily on small companies.

Simon Denison-Smith, managing director, emphasises that while much of their international work is for large companies, nearly 85 per cent of it in the UK is for small software houses.

These companies, with mostly small projects, have been unable to benefit from outsourcing to south Asia due to the large communications and monitoring overheads.

The Internet forms a large part in Rave Technology's operation, and with the development of NetCASE, a Java-based product, clients are able to securely publish and change data models which are instantly available to the developers in Bombay. Using the Internet from their desks, clients can also monitor the progress of projects, and even view actual timesheets.

With this approach, projects of only one to two years can benefit from outsourcing.

While countries in south Asia excel technically, they are often considered to be let down by poor marketing due, in many cases, to the lack of access to current market data and marketing opportunities. With the enormous amount of information available on the World Wide Web, software development companies in south Asia are using the Internet for market research.

By monitoring job vacancies on company websites and electronic trade publications, they are able to keep an eye on business developments and thus target clients more effectively.

Small companies and would-be entrepreneurs in south Asia with access to the Internet and an e-mail address have also discovered the benefits of Internet promotion by monitoring and contributing to business and industry newsgroups.

This brings them to the attention of a wider potential client audience. The widespread availability of industry e-mail lists is giving many small companies the potential to execute large marketing campaigns, without incurring any of the traditional costs.

The Internet is also providing an excellent opportunity for small companies and lesser developed countries, such as Pakistan, Bangladesh, and Sri Lanka, to make up for their late entry in to the offshore software industry.

Dr Safwan Shah, president of the Pakistan Professionals, Engineers, Scientists Network in America believes the Internet "is serving as a driver for cohesiveness and increased awareness" of the Pakistani software industry and is leading to many new Pakistani-American ventures.

The early entrants to the offshore development industry faced large barriers to entry. However Internet technologies and the global shortage of Internet skills are reducing the barriers considerably and provide an excellent market for small and newer companies.

With many quality sources of free information, training material and development tools available on the Net, small south Asian companies are finding that they can rapidly learn key Internet skills, without having to buy expensive books, hardware or software. The widespread use of the Internet in schools and universities in south Asia is now leading many students to do just this.

As the offshore software development industry develops, strong growth is likely to come from small companies providing specialist skills.

It is already becoming apparent in India and Pakistan that many young professionals with experience of providing development skills to the west are setting up their own small specialist companies providing Internet-related skills.

The current lack of Internet development skills in the west means that even a straightforward HTML (HyperText Markup Language) coder can demand $1,500 a week. A search on the Internet will reveal many small four- or five-person companies in Pakistan and India which are supplying these and more technical skills at a fraction of the cost.

Some of these companies charge as little as $5 an hour for a skilled programmer.

REGIONAL PROBLEMS • By Nitin Raiyaguru

IT industries may suffer

Pakistan and India will feel the effects of Asia's economic crisis and sanctions

The Indian and Pakistani economies have both suffered recently from the effects of the Asian economic crisis and international reaction to the recent nuclear tests.

The resultant slowdown in economic growth and their weakened currencies is likely to hit local IT industries as local governments and businesses cut back on IT expenditure.

The Indian software export industry is monitoring the situation but is quietly confident it will escape any adverse effects because of the many western organisations that are benefiting from the strategic advantages of outsourcing to India.

After initial concern about the events in the region, the confidence of western clients is returning, as details of the sanctions against India and Pakistan become clear.

In the short term, currency devaluation has created an unexpected bonus for software exporters, particularly those companies which have been working on fixed-cost contracts.

The rupee's fall has led to unexpectedly larger profit margins and with salaries in the industry rising by up to 25 per cent a year, the devaluation has also gone a long way to improve the cost advantages of outsourcing to the region.

The Indian government, which has realised the importance of the software industry to the economy, has published several new initiatives to help the industry. The recent Indian budget allowing "dollar stock option to employees of Indian software companies" is hailed by Dewang Mehta, chief executive of Nasscom, as a means of encouraging more companies to produce offshore software and restricting the brain drain to the west.

In the budget the government also announced that it wished to expedite further privatisation of VSNL, the Indian international telecommunications agency. The move is likely to result in greater infrastructure developments of higher bandwidth telecommunication, as well as more private participation in the telecoms industry.

While India's economy is more than capable of absorbing the impact of international sanctions, the picture is markedly different for Pakistan.

The development of the fledgling software export industry in Pakistan has probably the most to worry about in the light of recent events. With Pakistan having most to lose from sanctions, the imposition of a ban on private lending to the government and curbs on some credits and guarantees is likely to hinder the development of the communications infrastructure it requires to compete on a global stage.

The recent Pakistani budget has introduced measures to help the industry, most notably the withdrawal of excise duty on Internet users as well as personal computers and CD-Roms.

Pakistan is trying to encourage more foreign companies to invest in the software industry by giving tax holidays and other incentives.

However, the recent state of emergency and the freezing of foreign currency accounts, combined with the alleged harassment and subsequent house arrest of 35 foreign workers and their families, at the Hub Power Company, is likely to make investors very cautious.

With India's large skilled manpower and the presence of many medium-sized companies offering offshore software development services, the economic situation offers lucrative opportunities to western software companies wishing to enter the offshore development industry.

As the whole of Asia continues to suffer from the economic downturn, software export industries in Malaysia, Singapore and Thailand are becoming increasingly competitive and attractive to western companies.

India is unlikely to lose out in the current situation but these countries may find unexpected growth if relations between India and Pakistan worsen. And with China starting to make headway in the international software export industry, India may well find more competition in the future.

OFFSHORE SOFTWARE SUPPLIES • By Nitin Rajyaguru

Where quality is the key

India led the way but now smaller regional operators such as Sri Lanka and Pakistan are beginning to appear in the global marketplace

Today's management gurus and consultants tell us that if organisations are to survive they must adapt, re-engineer, concentrate on their key competencies and be lean, flat and flexible.

Unfortunately when it comes to the budgeting and planning of IT management to achieve these goals, the only certainty is that nothing is certain.

Organisations have often been eager to outsource IT to reduce uncertainty, operational difficulties and their costs. While this leads to leaner organisations, the evidence shows that all too often severe difficulties arise when IT strategies are altered. In outsourcing IT, organisations often relinquish the strategic IT flexibility of reacting rapidly to the changing business environment.

With the many strategic disadvantages from traditional outsourcing becoming apparent, organisations are realising the need to re-evaluate IT management practices.

A review of effective practices shows the evolution of a new model of IT management. This involves a core of highly trained and business focused in-house staff who selectively outsource non-strategic areas and insource specialist skills as and when required.

The trend towards "selective" and "smart" sourcing is leading many organisations to evaluate the use of the offshore software industry to help provide solutions to their problems.

While offshore software services have been around for many years, western organisations have always been cautious, regarding them in the same way that Japanese manufacturing was viewed in the 1960s and 1970s. This may have had some justification in the early days but it certainly does not any more.

The Indian software industry, in particular, has done much in the past 10 years to reduce the gap between western perception, and the reality. It has proved through its growth and record that services provided by South Asia are as good as, if not better, than the west.

Western organisations are now beginning to realise that as well as cost benefits, offshore service providers can supply quality, flexibility, key skills and, more importantly, they can produce software on time and budget.

Early users of the offshore software industry were initially attracted by the wide availability of skilled labour at low costs. This initial use of offshore services in the form of "body shopping" has had a profound impact on the development of the offshore software industry.

Body shopping provided foreign personnel and their organisations with valuable experience and skills on how the IT industry worked in the west. But as governments in the west have tightened visa restrictions for foreign workers, offshore service providers have had to develop their organisations, methodologies and infrastructure to deal remotely with clients in the west.

The Indian industry, undoubtedly the leader in providing offshore services, has learnt that quality is the key to successful international management and delivery of IT projects. Large Indian software houses have quality systems which meet international standards, many of which are far superior to their western counterparts.

Most companies which have used Indian software houses have been impressed with the high quality and productivity of Indian software professionals, all of whom are highly educated and commercially trained.

The advantages of the Indian industry and its personnel enable western companies to maintain strategic IT management control in house and have access to specialist technical skills.

The use of internationally accepted standard methodologies, tools and techniques means clients can specify their requirements, and the suppliers can use these to manufacture the code. The use of fixed-contract fees by Indian companies overcomes many of the problems that occur when projects run over budget and over time.

Organisations wishing to evaluate offshore software development often start by outsourcing non-critical applications.

Many companies have outsourced well documented and tested applications software which needs to be made millennium and Emu compliant.

Almost all those who have done so have discovered that compared to the west, not only can they obtain applications compliant quickly but they can also have them cross-developed on to current hardware and software platforms without incurring extra costs. This has led many organisations to undertake further outsourcing abroad.

The maturity and growing sophistication of the technical Indian software industry was highlighted last year when Bill Gates stated that "India is likely to be the next software superpower" at the World Economic Forum in Davos, Switzerland. This acknowledgement is leading many outsourcing companies in the west to regularly subcontract work for their western clients to specialist software houses or their subsidiaries in India.

The development of offshore services has meant that while most operators are interested in large projects, notably those over 10-man years, an increasing number of smaller specialist offshore software service providers are concentrating on smaller projects.

As a result, small- and medium-size enterprises can also benefit from offshore services. This has been fuelled by the growth and effective use of the Internet in South Asia. While India led the way to western acceptance and use of offshore services, smaller regional operators such as Sri Lanka and Pakistan are beginning to appear in the global marketplace.

Informatics (Pvt) in Sri Lanka has worked for several overseas clients, including British Airways, Toys R Us, and Esso as well as several British health authorities.

The Pakistani government has recently instigated initiatives to try to emulate India's success. The setting up of the Pakistan Software Export Board now means that a central body can co-ordinate the countries resources in a coherent and focused way.

Feraz Hoodhboy, a US-based Pakistani IT industry watcher, applauds the recent setting up of the Action Learning Centres of Excellence as an initiative which will produce "brick-laying programmers".

While Pakistan has a long way to go to match India's capabilities and experience, some Pakistani companies are starting to make their name in the international arena.

Mr Hoodhboy cites Cresoft as an excellent example of a Pakistani company which was formed in 1993 and which has executed several large scale RDBMS projects for clients in the US, most notably Time Warner's telephone customer service centre.

While Pakistan and Sri Lanka may not be as sophisticated or as large as the Indian Industry, they are cheaper and are starting to attract attention, particularly due to the efforts of the expatriate communities in the US and Europe.

The growth and sophistication of the international offshore software development market now offers many strategic options and benefits to western organisations, both large and small.

Traditional western software houses therefore need to re-evaluate their business models to see how they too can participate in the offshore software services industry and so evolve in an ever changing and uncertain industry.

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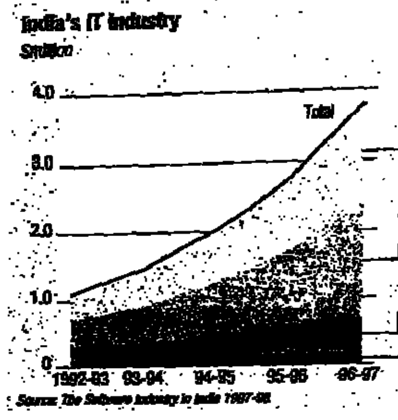
India's IT industry

$billion

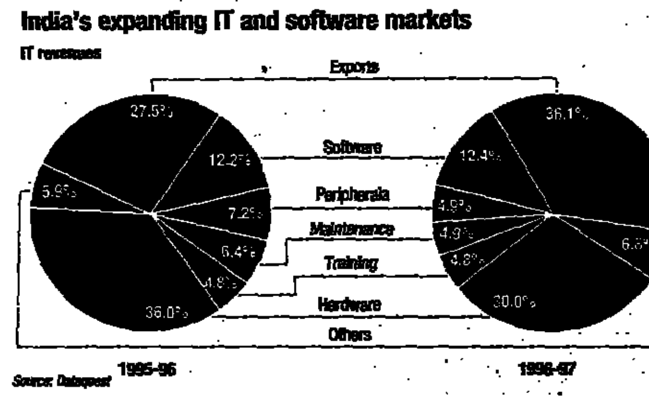


$m	1992-93	93-94	94-95	95-96	96-97
Hardware					
Domestic	370	490	590	1037	1050
Exports	52	93	177	35	340
Software					
Domestic	183	230	350	490	670
Exports	225	330	485	734	1085
Others	267	233	297	435	478
Maintenance	90	117	142	156	182

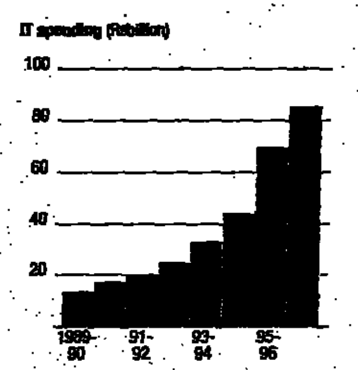
Source: The Software Industry in India 1997-98

India's expanding IT and software markets

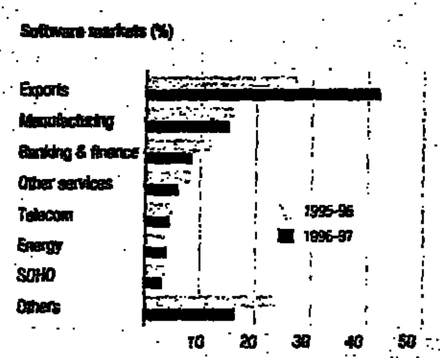
IT revenues



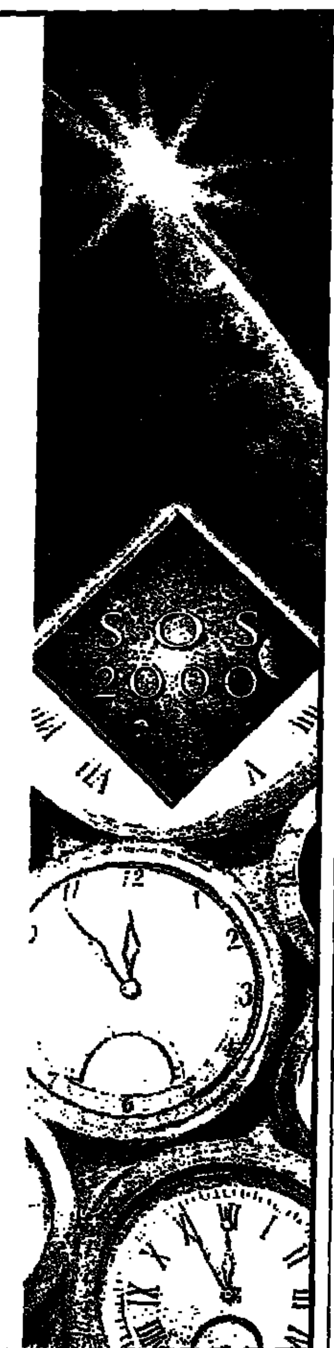
IT spending ($billion)

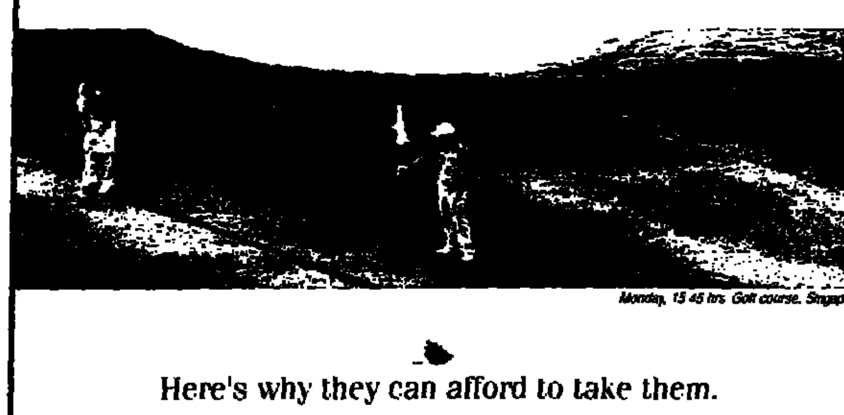


Software markets (%)



Source: Dataquest





HUMAN RESOURCES IN THE SOFTWARE INDUSTRY • By Krishna Guha in Bombay

Partial solution to old problem

Indian companies competing for world-class talent have a fresh lure for recruitment

This year's budget gave India's software industry a special present – the right to issue employee stock options linked to dollar-denominated securities. This privilege – granted only to software companies – offers a partial solution to an old problem: How does a globally competitive industry in a third world country compete for world-class talent?

"Our software companies operate in a highly competitive global market and the skilled professionals working in these companies have attractive opportunities abroad," says Yashwant Sinha, finance minister.

Dollar-listed stock options will allow Indian companies to devise "flexible systems of incentives to retain their human resources," he says.

Software executives welcome the plan. "Allowing dollar denominated stock options is a great step," says Narayan Murthy, chief executive of Infosys Technologies. He says the scheme could help India's software companies "move to the next orbit and attract high quality customers, employees and investors on a global scale."

Dollar-denominated stock options may also encourage Indian software executives living abroad to return to their native country in senior management positions – taking most of their pay in stock. This would provide an infusion of expertise, and compensate for the loss of experienced Indian programmers to companies abroad.

But Mr Murthy says the initiative will only produce dividends if software companies are given a relatively free hand to issue securities abroad and tailor their stock option schemes to suit particular needs. This is the great unknown.

To date, India's finance ministry has only stated that companies will be able to issue options up to 10 per cent of their listed capital, at a discount of up to 10 per cent of the market price at the time they are granted.

Nonetheless, software executives hope stock options will help reduce wage inflation and attrition rates – universally acknowledged as severe problems for the industry.

"Any software company that tells you they have a single-digit attrition rate [each year] is lying," says Prakash Desai, senior director at Parametric Computervision.

Mr Desai says high staff turnover damages the reputation of Indian software companies and hinders companies from building up a loyal list of clients. "It is the number one problem – all of us are trying to find solutions."

Many companies, looking to the US, for example, see stock options as the way forward. But some executives caution that they may not suit everyone.

A large number of Indian software companies are either privately owned, or are joint ventures with carefully prescribed ownership shares. Issuing stock options could upset the balance of ownership.

"We are looking for alternative ways to reward employees," says Kiran Deshpande, chief executive of joint venture Mahindra British Telecom. His company is considering bonus schemes which mimic share options. "You need a sense of ownership and a share of profits," said Mr Deshpande. "Stock options are not the only tools to do it."

Executives agree that new methods of payment alone are not enough. They must be accompanied with better human resource management if India's software industry is to keep its best staff.

"The human resource function is very important," said Mr Deshpande. Here too, Indian companies are seeking to draw on international best practice. MBT employs HR professionals, but also sends its project leaders on training courses to improve skills.

"Human resources is not simply a department – it is career planning, recruitment processes, personnel management and appraisal," says Mr Deshpande.

Executives can reduce attrition rates by making sure all their employees feel they are stretched (and learning skills to improve their marketability) and feel at home in the company, he says. This helps hold down attrition and wage inflation independent of option schemes. Many Indian software companies are doing away with traditional hierarchies and instead work in project groups, with more feed-back from staff. Life-style factors matter, too.

Software companies try to locate in cities which offer a high quality of life as a further incentive to their employees to stay put.

This in turn, is emerging as an important competitive tool in the battle between rival software centres to attract big investors. Within India at least, Bangalore is as famous for its pubs as for the software programmers who fill them at closing time.

However, all software executives know that their efforts are in vain if the telephone rings with the offer of a job in California – every Indian software worker's dream. "You can't pay US salaries here," says Mr Desai. "They are eight or 10 times higher."

Executives privately doubt this will change soon, even with dollar-linked stock options. At best, they will tie down employees for limited periods.

Shrewd executives say it is important to recognise that losing staff is part of life in the software industry – much as it is in the securities industry worldwide. The important thing is to manage the departure process – making sure that poached staff do not cut and run.

This in turn means encouraging employees to confide in their superiors when the fatal phone call or e-mail arrives. Mr Desai says: "We say to our staff – tell us, finish your project, and leave on good terms."